BUILDING AN ISLAND ECONOMY: STRENGTHS, OPPORTUNITIES AND CHALLENGES

A Summary

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January 1992

The Background

To the casual observer, Prince Edward Island holds much promise and no doubt gives the impression of being one of the most prosperous regions in the country. The Island's pristine environment (at least at first sight), its solid public infrastructure facilities, its attractive villages and towns and its quality of life could lead one to conclude that all is well with Prince Edward Island. Perception is one thing, but economic reality is quite another.

The Prince Edward Island economy is largely made up of the agriculture, fishing, manufacturing and the service sectors. Historically, agriculture and fishery, in particular, have played an important role in the Island's economy. They still do, but they have witnessed far-reaching changes in recent years.

The Island has seen a dramatic loss of farm population. Over the past half century, the percentage of the Island's population living on farms has declined from 63 to 8 percent. Other provinces have also seen a dramatic shift away from the family farm. What is different in Prince Edward Island is that the Island has had limited capacity to accommodate this shift. The Island has no large metropolitan centres, no large manufacturing sector and no major and current buoyant resource industries. As a result, job seekers have been leaving their farms and rural areas for central Canada and elsewhere. We know that a high percentage of those leaving the Island have been the better educated, the more highly skilled adults and those in the 18-35 age group. This is producing a population age structure heavily weighted on both ends of the demographic spectrum.

This is not to suggest that the agriculture sector is in disarray. It is not. Agriculture, together with its processing activities, remains the most important industry in the goods-producing sector on the Island in terms of Gross Provincial Product (GPP) and employment.

The importance of the fishery to the provincial economy has been far less stable than is the case for agriculture. The sector's contribution to the provincial GDP went from 3.0 percent in 1971 to 1.6 percent in 1976 and back up to 3.1 percent in 1990. It is also important to stress that the fishery is predominantly an inshore/small boat industry (for example, in 1988 there were 1,433 inshore boats compared with 5 offshore ones).

The manufacturing sector in Prince Edward Island is markedly different in terms of importance and composition than it is at the national level. For one thing, the sector is considerably smaller (in P.E.I., it represents about 7 percent of GDP, while it amounts to nearly 20 percent nationally). It is also strongly linked to agriculture and the fishery (in 1988 the processing of farm and fish products accounted for a major component of the manufacturing sector).

There are several important points about Prince Edward Island's manufacturing sector that need to be highlighted. The Island has had a low level of business capital investment, which has consistently hovered at around 35-40 percent of the national average on a per capita basis. It is true that the average number of production workers per manufacturing establishment on Prince Edward Island did increase from 11 to 19 between 1966 and 1986. At the national level, however, the number has remained stable over the years at a much higher level fluctuating between 35 and 44 between 1976 and 1986. The statistics on value added per production worker are also quite revealing. The value added per production worker in Prince Edward Island increased by 465 percent from 1966 to 1986, but by 544 nationally during the same period. This data speaks to the need to strengthen research and development capacity and to adopt new technology quickly to the Island's production process and to invest in modernizing manufacturing plants.

The Island's service sector, as elsewhere in Canada, has registered strong growth over the past twenty years. But, again, there are important differences. Many service industries in Prince Edward Island owe their existence directly or indirectly to the primary sector. In addition, as a proportion of economic activity, public administration plays a much larger role in the Island's service sector than is the case nationally. That said, tourism continues to play an important role in the service sector and in 1989 total tourist spending amounted to nearly $100 million, a record high.

The presence of government, notably the federal government, can easily be found virtually everywhere in the Island economy. The unemployment insurance program, for example, represents a net inflow of about $150 million annually to the Island economy. The hand of government is also present in the private sector with government assistance to Prince Edward Island business increasing from $7 million in 1970 to $87 million in 1982.

Total government transfers to business as a percentage of the Gross Domestic Product stood at 4.7 percent in 1988, an increase of 1.2 percent over 1981, while at the national level we saw a drop from 3.0 percent in 1981 to 2.4 percent in 1988. Viewed from another perspective, transfer payments to businesses increased in Canada by 35 percent between 1981 and 1986 and by 128 percent in Prince Edward Island. Federal government transfers to the Prince Edward Island government are also substantial. In the fiscal year (1991-92), such transfers amounted to 44.5 percent of total provincial revenue.

There is some cause for concern given the pressure on Ottawa to cut back spending, particularly in federal-provincial cost-shared programs. Indeed, the pressure on the federal government to alter its spending budget comes from a number of forces and not one of them point in the direction of increased spending. Canada's troubled unity is putting pressure on Ottawa to decentralize further fields of jurisdiction and decision-making authority. The pressure to decentralize further Ottawa's power comes not just from Quebec. It also comes from parts of western Canada, from a growing perception that the federal revenue side has been pretty well tapped to the limit with several tax increases in recent years and the introduction of the Goods and Services Tax (GST). The pressure to cut spending to get a better handle on the deteriorating fiscal situation will increase. One can easily predict that regional development programming is slated to come under intense scrutiny. The *Globe and Mail* recently declared in an editorial that "regional development money is often wasted" and pointed to cuts in this area as a way to get a handle on Ottawa's "unruly deficit." This is not to suggest for a moment that the *Globe and Mail* based this information on solid research. It did not.

Globalization, including trade patterns arising under the Canada-U.S. Free Trade Agreement, could well redefine the relationship various regions have with one another. The "National Policy" that was always at the core of every government's economic program for over a century until the mid-1980s, has been discarded. That policy, as is well known, sought to create and strengthen East-West ties. It became widely accepted that the policy largely favoured the economies of Ontario and Quebec, in particular that of southern Ontario, and that its impact on the rest of the country was discriminatory. It will be recalled

that the Ontario government fought a rearguard action on the Canada-U.S. Free Trade Agreement.

As Ontario adjusts to the Free Trade Agreement and other global economic forces, it may well begin to hang question marks alongside programs designed to maintain Canada's east-west links, whether in the form of transfer payments to individuals or of federal regional development programs. What may well become important for Ontario is putting in place measures to undercut Michigan's cost structure rather than securing east-west links. The global economic forces will also have major impacts on the evolution of the political economy of Canada's regions. As Canada's regions become inserted differently into the global economy, their links with the outside world will become more important relative to their economic linkages within Canada. In such a political economic environment, it may well become difficult to sustain the political commitment in wealthier provinces to interregional redistribution.

Lessons Learned

The federal government and the Prince Edward Island government have over the years introduced costly programs to promote economic development on the Island. In planning a new package to promote industrial development, it is important to look back and see what we have learned from past efforts.

Some of the lessons learned include:

- Contrary to the widely held perception, governments have not over the years placed as much emphasis on industrial development as they have on other sectors.
- Incentives to the private sector are generally more effective when the projects are small, involve new products, when equipment are modernized and when foreign competition is high.
- It is much too early to do a thorough evaluation of the current Canada-Prince Edward Island Industrial Development Agreement and report on successes and shortcomings.

- It is clear that many of the past economic development efforts in Prince Edward Island have been successful. The most obvious examples are in tourism.
- Prince Edward Island is an island economy and this holds obvious implications for economic development. We need to know more about how Islanders themselves view their economic development. We need to isolate the principal barriers to development, physical, psychological and institutional and then we must seek remedies to offset them.
- The structure of government, or how government is organized, may well constitute a constraint to economic development. Regional development, more than any other public policy fields, needs a capacity to be creative, to adjust quickly to changing circumstances, to challenge the status quo and conventional thinking, to deliver initiatives with a minimum of red tape and to be in the field working with key economic actors and having the authority in the field to plan and make decisions. One hardly thinks of government bureaucracies when one thinks of these requirements.
- By *all* accounts (i.e representatives of the private sector, the federal government, the provincial government both in head office and field offices), the existing subsidiary in industrial development has worked extremely well, has the right program mix, is extremely flexible, and is capable of capturing development opportunities.

What To Do?

The challenge at hand is immense - to see the Prince Edward Island economy become more self reliant. To put it differently - to see Prince Edward Island lessen its dependency on federal transfer payments to support its socio-economic infrastructure. Such transfer payments in one form or another, account for a major share of the Island's economy - with some going as far as suggesting that they constitute as much as 75 percent of the provincial economy.

How then can the Prince Edward Island economy become more self reliant? The current thinking underpinning regional economic development policy in Canada is that the private sector must show the way ahead. We accept this for Prince Edward Island, but only up to a point. To be sure, the private sector must play a lead role if Prince Edward Island is to meet the challenge. Certainly ACOA and the provincial government should continue to promote entrepreneurship - the latest fad in economic development - and to look to other means to strengthen its private sector.

But the public sector, notably the federal government, must also play a lead role if Prince Edward is to become more self-reliant. Slowly turning off the transfer payment tap thinking that the local private sector can somehow pick up the slack will not work. The public sector must intervene not simply with special programs to assist the private sector develop and grow, but also turn to its own activities to promote economic development in Prince Edward Island. In short, both sectors have an important role to play.

But that is not all. All economic actors in the Prince Edward Island economy will have to play an important role and this includes those that may have assumed in the past that they were only at best marginal players in promoting economic development. We are talking here of schools, the university, the research and development community, individuals, and some government departments. The goal is to make the Prince Edward Island economy more self reliant. The way ahead is to strengthen the Island's private sector. To do this, all economic levers, including a host of institutions, will have to be pulled and pushed in the right direction. In addition, the energy, skills and creativity of many Islanders will have to be harnessed for the Prince Edward Island economy to become more self reliant and for the local private sector to compete successfully in the global economy.

We recommend that ACOA and the Prince Edward Island government sign a new five-year industrial subsidiary agreement. It is clear that the current agreement has been successful. Accordingly, the new agreement should - albeit with some modifications - be patterned along the lines of the existing agreement. Almost to a person, everyone we consulted applauded the existing industrial subsidiary agreement. In short, we argue that another five-year industrial agreement constitutes an important step towards a more self-reliant Prince Edward Island economy. We also argue, however, that it will not be enough.

An important theme of the report is that Islanders themselves will have to provide much of the energy, skills and creativity to plan and organize new economic activities. We suggest new initiatives in human resources development, marketing, and research and development. We urge the full participation of key local institutions in promoting economic development in Prince Edward Island, notably the Food Technology Centre, the Veterinary College, University of Prince Edward Island, and Holland College. Chapter 4 of the report points to a number of specific initiatives that could be launched to ensure the participation of these institutions in promoting economic development.

We also argue that the structure of government itself often constitutes a constraint to economic development. Regional development, more than any other public policy field, needs a capacity to be creative, to adjust quickly to changing circumstances, to challenge the status quo and often conventional thinking both inside government and in the community, to deliver initiatives quickly with a minimum of red tape and to be in the field working with key economic actors and having the authority in the field to plan and make decisions. One hardly thinks of government bureaucracies when one thinks of these requirements. We now need to think of different organizational models to get the job done.

We applaud the ambitious government reform measures the Prince Edward Island government recently introduced. We are convinced that they constitute a step in the right direction. We also heard, time and again, that ACOA and the provincial government have struck an excellent working relationship. We strongly recommend both orders of government to continue their close working relationship and to leave well enough alone in terms of who does what or who delivers what under the industrial subsidiary agreement.

We also urge ACOA and the provincial Department of Industry to look a the Island's private sector in terms of four distinct components. Each component, we report, requires different approaches to see them grow. The four components are *aspiring entrepreneurs*, *new entrepreneurs*, *long-established Prince Edward Island firms* and *firms from away*. In turn, each component has different requirements, notably:

1. Aspiring Entrepreneurs:

- Promoting role models to encourage young people to look to establishing their own business as a career option;
- Working with the School of Business at UPEI to promote entrepreneurship and to encourage graduates to become entrepreneurs;
- A small cash grant;
- Minimum of red tape and application forms;
- Information on how to start a business, on marketing and on how to operate a business.

2. New Entrepreneurs:

- Tailor a financial assistance package to the firm. New entrepreneurs are likely to have developed a strong capacity in one or two areas (e.g. production) but may well be lacking in others (e.g. marketing and access to capital to expand);
- Important to look at these firms from a track record perspective. That is, determine what they are good at and where they are weak;
- With a minimum of red tape, assist the firms in areas where they are weak;
- The current industrial subsidiary agreement has the necessary flexibility to look to new entrepreneurs in terms of defining a special package to assist them.

3. Long-established Prince Edward Island Firms:

- Both ACOA and the provincial Department of Industry need to focus future efforts on these firms. They are, in many ways, the backbone of the Prince Edward Island economy. For one thing, these firms are in Prince Edward Island to stay, provided they

can compete. For another, it is often a lot easier to save one existing job than to create a new one;

- My consultations reveal that, above all, these firms need to update their operations and to modernize their management techniques;

- We urge both levels of government to prepare an inventory of local manufacturing firms, including food processing firms that have been in business for over thirty years. Interviews - in a pro-active manner - should be held with the owners of these firms to assess *jointly* what may be required in research and development, product design, marketing, human resources development et al. to strengthen the firm's ability to compete in the global economy;

- It may be necessary to tailor package to the requirements of the individual firm. In some instances, firms may only need to know where they can access research and development or market intelligence. In other instances, it may be necessary to make arrangements to have marketing or engineering expertise in the form of a recent university graduate made available to the firm for one year through a special cost-shared arrangement. In still other instances, a special multi-facet package may be necessary, involving marketing, some research and development work, and human resources to ensure that the firm will be able to compete.

4. Large Firms From Away:

- These firms do not need to be told to modernize their thinking. They also often have their own in-house capacity to keep abreast of new developments and to be at the leading edge of new thinking in their sectors. They will turn to governments to seek out whatever assistance is made available and

there is little need to knock on their doors to encourage this;

- Still, both orders of government should be in close contact with these firms to encourage whenever possible both formal and informal business networking with local firms. There is likely much that local firms can learn from large national and multinational firms in marketing, market intelligence and modern management thinking.

We also report that Prince Edward Island will have to attract outside investments to become more competitive and more self-reliant. To do so, the province will have to sell itself to the world. It will not, however, be able to do so through a diverse collection of slogans, approaches and sudden starts and stops.

Prince Edward Island must develop a central promotional theme that sums up why outside investors should invest in Prince Edward Island. More specifically, we urge Prince Edward Island to prepare a promotional campaign that would focus on the types of business that would have every chance of success in Prince Edward Island and on reasons for choosing the Island as a place to invest.

Consultations with a cross-section of Islanders, including individuals who have been working in regional development for some twenty years, suggest that Prince Edward Island should seek to attract outside investors wishing to add value to the Island's natural resources and to invest in the service sector. This is not to suggest that governments should shut the door to local or even outside investors wishing to invest in non-traditional type businesses. We know, for example, that some local investors have been highly successful in such businesses of late. Still, there is a widely held view that the Island should concentrate its promotional efforts on attracting outside investments through which new processing and manufacturing can add to the value of Prince Edward Island's resources. In addition, the limited resources available to support manufacturing should be concentrated on developing new markets and on export-oriented companies and institutions. Standardized mature commodities should be avoided, except where they are based on particular resources or local

advantages which Prince Edward Island might have. Development *priority* should be given to industries where the management, product development, marketing and production functions are located in Prince Edward Island.

Both ACOA and the provincial government should be prepared to be flexible and to tailor special packages to attract the right kind of investor to the Island. The provincial government should, for example, be prepared to design *a* special tax incentive package (on a case-by-case basis) to attract a new investment.

In addition, both orders of government should be prepared to offer a package that may include assistance that does *not* reduce the capital needed by a private investor but looks to other factors. We now know that cash grants designed to reduce the cost of capital often encourages the establishment of production facilities only and does little to encourage the indigenous development of corporate management and other key functions, such as product research, design, development and marketing. As technology develops, the production function involves a smaller and smaller portion of the total costs incurred and resources committed over the life of the product. Technology has also created portable production methods, equipment and techniques. Accordingly, the presence of a production facility only in a community can no longer be viewed as providing stable long term employment.

A more productive approach in certain instances would be to concentrate financial aid on "buying down the learning curves." Every product, over its product life, has learning curve costs arising from its development and introduction to the market. These involved incremental research, production, marketing, management, training and education costs. In modern advanced technology, these costs are important and often exceed other capital and operating costs combined.

Governments should assist firms in buying down specific learning curve costs, provided they are incurred in Prince Edward Island. They could do this either through a cash grant or through a special tax incentive negotiated on a case-by-case basis. This would encourage the development of integrated facilities with indigenous management, design, development and marketing functions. These integrated facilities are much less likely to be footloose and they will add to the management and professional skills of the area. In

addition, concentrating assistance on learning curve costs discourages over-capitalization (the installation of overly large, costly and unnecessarily complex production equipment). This, in turn, will avoid the ongoing need to subsidize the "core" costs of industries that can barely compete in the marketplace.

Prince Edward Island is also an ideal location for the service sector. The Island's quality of life, close community spirit, affordable housing, excellent schools, safe streets, easily accessible recreational facilities, a solid university, excellent air service to central Canada, a labour force that is both loyal and hard working point to Prince Edward Island as an ideal place to locate new service-related economic activities. Yet, all these positive features are not widely known outside of Atlantic Canada - it is one of Prince Edward Island's best kept secret. One individual we consulted suggested that we have not promoted Prince Edward Island well perhaps because we have started to believe central Canada's perception of us, as laid back and willing to let the flow of time direct its economic future.

How then should we promote Prince Edward Island as a place to invest and where? In terms of the how, we need to focus on a few carefully selected themes and to prepare a comprehensive package. It will also be important to involve all key actors in the process. The premier is a highly articulate and forceful speaker with a positive image outside of Atlantic Canada. We should make full use of him. He could, for example, launch the campaign through a speaking engagement at the Empire or Canadian clubs in Toronto. He could point to Prince Edward Island as a place to invest for certain industries and declare that the Island will assist investments in these areas. We should encourage the participation of Islanders, currently living in Toronto, in promoting Prince Edward Island as a place to invest. There are at the moment a number of highly successful Islanders occupying various key positions in large private sector firms or have become successful business proprietors in their own right that would be happy to lend a hand to the economic development of their home province.

In terms of where Prince Edward Island should be promoted, we should target Ontario, New England and selected non North American countries. We know that Ontario, particularly Toronto, does not hold the same advantages it once did only a few years ago -

dramatic urban growth is not without problems and some firms are looking to relocate where it is cheaper to operate and the quality of life is better. In addition, some American firms are locating to Canada as a stepping stone to Europe. Similarly, some European firms are looking to Canada to locate to tap into the United States' market through the United States-Canada Free Trade Agreement.

Chapter 4 reports on *What To Do* and chapter 5 presents in summary form our recommendations on how Prince Edward Island can begin to make the transition towards a more self-reliant economy. Both chapters are relatively brief and we urge the reader to consult them to gain a full appreciation of both the challenge ahead for Prince Edward Island and what specifically can be done to meet it.

BUILDING AN ISLAND ECONOMY:

STRENGTHS, OPPORTUNITIES AND CHALLENGES

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January 1992

TABLE OF CONTENTS

INTRODUCTION 1

Outline of Report 3
Methodology 4

CHAPTER 2 - THE POLICY ENVIRONMENT 5

The Prince Edward Island Economy 5
The Presence of Government in the Island Economy 12
The Challenges 13

CHAPTER 3 - LESSONS LEARNED 17

An Assessment of Past Efforts 28

CHAPTER 4 - WHAT TO DO? 37

Revisiting the Challenge 37
The Private Sector 38
Other Issues 66
The Public Sector 68
The Federal Government 69
The Provincial Government 71

CHAPTER 5 - RECOMMENDATIONS 73

A New Industrial Subsidiary Agreement for Prince Edward Island 76
Entrepreneurship 76
Strengthening the Island's Private Sector 79
Market Development 81
New Technologies: Their Development, Transfer and Application 82
Research and Development 83
Human Resources Development 84
Prospecting 85
The Environment 86
The Public Sector 86

APPENDIX A 90

INTRODUCTION

To the casual visitor, Prince Edward Island, no doubt, exudes an aura of pastural bliss. One quickly senses a deep sense of pride among Islanders in their community and homes. No matter what road one meanders on, one usually sees only handsome and beautifully kept homes. The Island's pristine environment (at least at first sight), its solid public infrastructure facilities, and its attractive villages and towns lead one to conclude that Prince Edward Island is prosperous. Indeed, someone visiting Canada for the first time and totally unfamiliar with its economic history could well conclude that Prince Edward Island is one of the most prosperous regions in the country.

Perception is one thing but economic reality is quite another. The Island's economy has become highly dependent on federal transfer payments. Indeed, federal transfer payments of one kind or another now constitute by far the Island's largest economic engine. It is important to note, however, that on this score Prince Edward Island is not much different than the other three Atlantic provinces and Manitoba. Still, the dependency on federal transfer payments is cause for concern for the economic future of Prince Edward Island. What is more worrisome, however, are the powerful political and economic forces currently at play that will increasingly challenge the federal government's ability to continue providing payments to the provinces, particularly those in slow-growth regions, at their current levels. The federal government's accumulated debt, the requirements of the global economy, the country's current unity woes, the call for less government and for greater decentralization of power all point to a series of question marks concerning many federal government transfer payments.

What the above suggests is that Prince Edward Island should look to promoting self-sustaining economic development and to making the transition to a more self-reliant economy. To be sure, Prince Edward Island and the federal government have put in place a wide array of measures over the past twenty-five years or so designed to promote economic development. They must do so again, but this time with a greater sense of urgency and intensity than at any time in the past.

Given the powerful forces now at play, it is not too much of an exaggeration to suggest that Prince Edward Island is at a crossroad. It can commit itself to ambitious and determined programs to promote economic development. This time, the measures must take in all the key economic actors on the Island in a concerted effort - every economic lever that can play a positive role must be pulled. Above all, the key economic actors will need to recognize that the transition to a more self-sustaining economy will not occur overnight, but that the transition is possible.

On the other hand, the Island can sit back and let the flow of time decide its economic future. Indeed, there is a risk that Islanders may be lulled into a complacent view of their future. Federal transfer payments to the provinces and to individuals will not be cut overnight or even in a dramatic fashion. That is not how government, in particular the federal government, works. Rather, the cuts will be gradual - in fact, the process has already begun. The result is that Islanders will not see a dramatic change in their lifestyle and in the economic structure. In time, however, the impact will surely be felt.

This is why Prince Edward Island should now turn to economic development with a sense of urgency and commitment. The Island needs to put in place measures designed to facilitate the transition from an economy highly dependent on federal transfer payments to one that is much more self-reliant. This is not to suggest that we need more government programs. There is a wide consensus on the Island that there is at the moment a sufficient number of programs - indeed some, including government officials themselves, argue that there are too many government programs chasing the same objective.

The underlying theme of this report is that Prince Edward Island needs to overhaul not so much what it does in economic development, but how it does it. It needs to involve all key economic actors - some of which have stayed on the sideline over the years thinking that it wasn't their responsibility. It needs to be much more aggressive in its marketing strategies, in promoting development and entrepreneurship. In addition, the report stresses that Prince Edward Island requires its own approach to development. It is often said that what works in one region in economic development may not work in another region. This is particularly true for Prince Edward Island. The Island's economic structure, its business community and Islanders themselves are vastly different from that found in other

regions. This suggests that, to be successful, an economic development strategy for Prince Edward Island must be tailored to the Island's economic circumstances. We know, for example, that entrepreneurship is the latest fad in regional development programming. In the case of Prince Edward Island, however, unique measures will be required to see entrepreneurship have a significant impact. In addition, entrepreneurship is unlikely to be enough to see Prince Edward Island make the shift to a much more self-reliant economy.

Outline of Report

This report is divided into four sections. The first section looks at the policy environment in which future economic development measures will be formulated and implemented. The global economy is here and it is having an impact on a number of fronts. Trade barriers are falling, pressure is mounting on the "share-the-wealth" approach to Canadian federalism, new political and economic pressures are being felt within and between regions, businesses with an outward looking perspective are gaining, while insular ones are losing ground and there is a push on everywhere to make regional and national economies more competitive. It only takes a moment's reflection to appreciate the impact all of this will have on the Prince Edward Island economy. Still, it is important to review the Island's economic structure and this section in the report does that. We want to pinpoint the importance of each sector to the economy as well as the presence of the federal government.

Another section titled *Lessons Learned* looks at past efforts in promoting economic development on Prince Edward Island. We know that the federal government and the Prince Edward Island government have been putting in place regional development measures for about twenty-five years. There is no need here to reinvent the wheel. We need to draw out the most positive features of past efforts, determine what has worked, and isolate those efforts that proved less successful. We also need to assess whether measures were conceived and implemented in the most creative and productive environment possible.

Another section seeks to answer the question - What should governments do to promote economic development? We recommend that future efforts should be concentrated on several areas: entrepreneurship, market development, the transfer and

application of new technologies, research and development, human resources development and promoting the Island as a place to invest.

A final section brings forward a series of specific recommendations on how to strengthen industrial development opportunities and economic development in Prince Edward Island, how to develop and strengthen the Island's business community and the kind of strategic themes governments should pursue.

Methodology

The report draws on extensive consultations with representatives of the private sector, academic and government communities in Prince Edward Island. The purpose of these consultations was to get a first-hand appreciation of current and past efforts as well as an understanding from people directly involved in promoting economic development on the Island about what can work in the future (see appendix A for a list of individuals consulted).

The report also draws from an extensive list of background documents prepared on the Prince Edward Island economy. These documents include various studies prepared by the government of Prince Edward Island, the federal government and consultants. Every effort was also made to consult studies reporting on economic development measures in other jurisdictions to gain any fresh insights on economic development thinking. A steering committee was also established to guide the work. Members of the committee took a strong interest in the study and came forward with a number of extremely valuable insights and suggestions.

CHAPTER 2
THE POLICY ENVIRONMENT

Compared to even only a few years ago, today's pace of change is breathtaking. Technological breakthrough, the ability to communicate with every corner of the world instantaneously and modern transportation infrastructure and facilities are such that nothing is overseas any more. The trading world is quickly moving towards large regional trading blocks (e.g. Western Europe and North America) and towards a global economy. Trade barriers are coming down everywhere, including in the maritime provinces, North America and in the GATT community. In short, we are living in a much more open economy than ever before. In addition, we have a much more open trading environment, a more competitive global economy and a more rapid transfer of technology. The life cycles of products, companies and even whole industries are also much shorter today than at any time in the past. This obviously holds far-reaching implications for Canada and Prince Edward Island.

Indeed, it is hardly possible to define a new industrial development strategy for Prince Edward Island without first stepping back and looking at the powerful political and economic forces now at play. But first, it is important to look at the Island's economic structure and to assess its capacity to adjust to the new economic order. The review of the Island's economy is relatively brief simply because there are some recent and thorough reviews available (see, for example, *The P.E.I. Economy: Challenges and Opportunities in the 1990s* prepared by Research, Evaluation and Technical Services, Policy and Planning Division, Department of Industry, June 1991).

The Prince Edward Island Economy

As is well known, the Prince Edward Island economy is by far the smallest in Canada, accounting for less than 0.3 percent of Canada's GDP (P.E.I. itself comprises only 0.5 percent of Canada's population). Moderate economic gains in 1989 were somewhat below

the national rate, but this followed a year of exceptional growth (7.7 percent) in 1988. This growth resulted mainly from a strong performance in the agriculture and tourism sectors. Unemployment rates in Prince Edward Island - second only to Newfoundland - have consistently been among the highest in Canada, hovering around 13 percent for the last five years.

The Prince Edward Island economy is largely made up of the agriculture, fishing, manufacturing and the service sectors. Historically, agriculture and fishery, in particular, have played an important role in the Island's economy. They still do, but they have witnessed far-reaching changes in recent years.

The Island has seen a dramatic loss of farm population. Over the past half century, the percentage of the Island's population living on farms has declined from 63 to 8 percent. Other provinces have also seen a dramatic shift away from the family farm. What is different in Prince Edward Island is that the Island has had limited capacity to accommodate this shift. The Island has no large metropolitan centres, no large manufacturing sector and no major and current buoyant resource industries. As a result, job seekers have been leaving their farms and rural areas for central Canada and elsewhere. We know that a high percentage of those leaving the Island have been the better educated, the more highly skilled adults and those in the 18-35 age group. This is producing a population age structure heavily weighted on both ends of the demographic spectrum.

This is not to suggest that the agriculture sector is in disarray. It is not. Agriculture, together with its processing activities, remains the most important industry in the goods-producing sector on the Island in terms of Gross Provincial Product (GPP) and employment. The most recent data on the contribution of agriculture to provincial GDP ($1,414 million in 1986) reveals that agriculture accounted for 7.6 percent of total GDP and 26.5 percent of GDP for the goods-producing sector. It is important to note that agriculture's contribution to the provincial GPP is still considerably higher than that for Canada. The sector remains important to the provincial economy, even though employment has dropped significantly, largely because it has kept pace with new technological advancement in agricultural production.

The importance of the fishery to the provincial economy has been far less stable than is the case for agriculture. The sector's contribution to the provincial GDP went from 3.0 percent in 1971 to 1.6 percent in 1976 and back up to 3.1 percent in 1990. It is also important to stress that the fishery is predominantly an inshore/small boat industry (for example, in 1988 there were 1,433 inshore boats compared with 5 offshore ones).

The manufacturing sector in Prince Edward Island is markedly different in terms of importance and composition than it is at the national level. For one thing, the sector is considerably smaller (in P.E.I., it represents about 7 percent of GDP, while it amounts to nearly 20 percent nationally). It is also strongly linked to agriculture and the fishery (in 1988 the processing of farm and fish products accounted for a major component of the manufacturing sector). Tables 1 and 2 below reveals the importance of food-related industries to the province's manufacturing sector.

TABLE 1
P.E.I. MANUFACTURING STATISTICS BY MAJOR GROUP
(1986)

	Establishments	% of Total Manufacturing Establishments	Total Employees	% of Total Manufacturing Employees
Food industries	48	34	2,200	64
Wood industries	22	16	207	6
Fabricated metal industries	8	6	123	4
Non metallic mineral products	6	4	39	1
Agricultural chemical and fertilizer	6	4	64	2
Total manufacturing	141	100	3,418	100

SOURCE: Statistics Canada, Catalog 31-203.

TABLE 2
VALUE ADDED IN MANUFACTURING ACTIVITY BY MAJOR GROUPS AND INDUSTRY
1982-86
($'000)

	1982	1983	1984	1985	1986
Fish products industry	12,903	16,529	11,141	16,277	24,117
Dairy products industry	12,891	12,613	12,362	x	x
Other food and beverage industry	x	30,760	17,676	x	35,543
Total food and beverage industry	x	59,902	47,779	49,777	58,720
Wood industries	1,713	3,211	3,384	3,299	3,889
Furniture and fixtures industry	x	x	x	x	x
Printing, publishing and allied industries	x	8,315	x	10,486	x
Machinery industries	x	x	x	x	x
Non metallic mineral products industries	x	x	x	x	1,460
Miscellaneous manufacturing industries	x	2,382	3,248	4,456	4,771
Total all industries	75,152	93,148	87,158	94,042	107,008

SOURCE: Statistics Canada, Catalogue 31-203, Manufacturing Industries of Canada, National and Provincial Areas.

X = not available

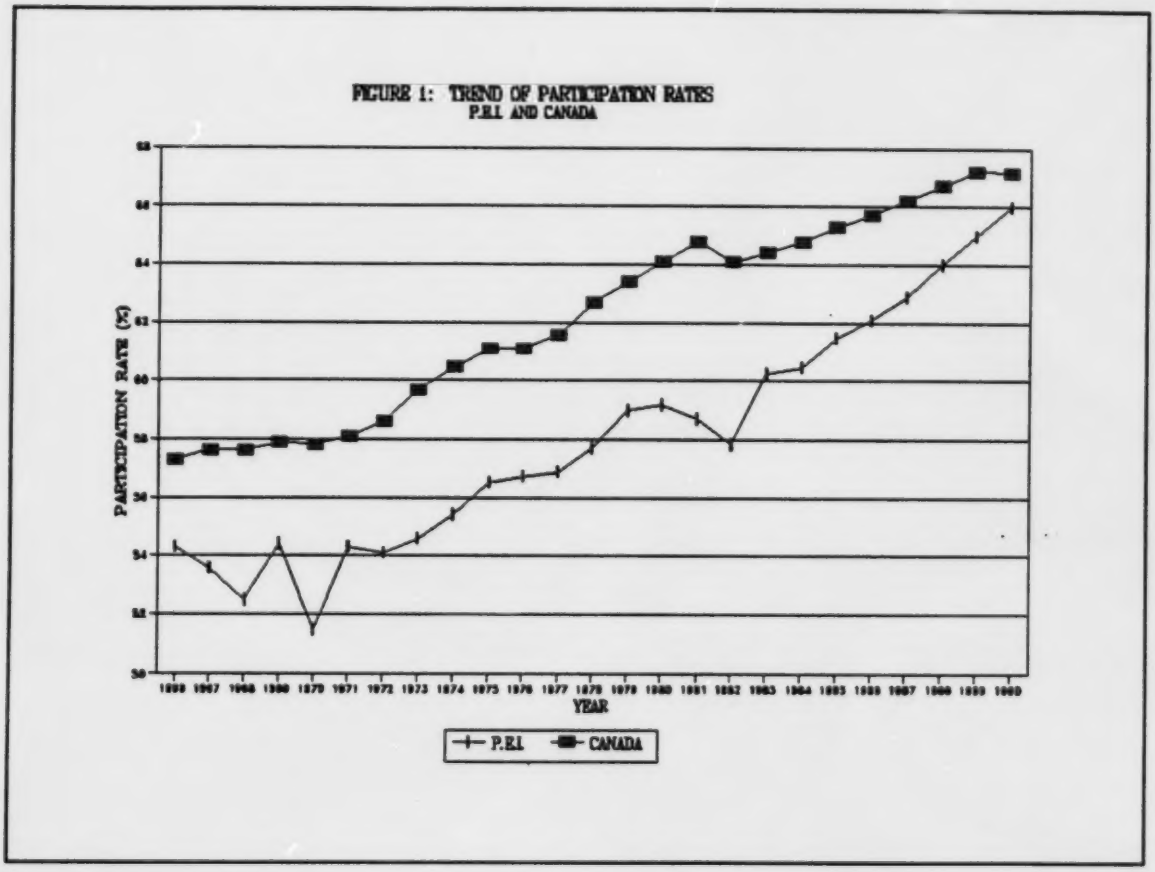
NOTE: Bakeries have been removed from the manufacturing category and shifted to the services category. 1983 figures conform to this change and 1982 figures have been revised to reflect the change. Figures prior to 1982 do not compare with the data after this reorganisation.

There are several important points about Prince Edward Island's manufacturing sector that need to be highlighted. The Island has had a low level of business capital investment, which has consistently hovered at around 35-40 percent of the national average on a per capita basis. It is true that the average number of production workers per manufacturing establishment on Prince Edward Island did increase from 11 to 19 between 1966 and 1986. At the national level, however, the number has remained stable over the years at a much higher level fluctuating between 35 and 44 between 1976 and 1986. The statistics on value added per production worker are also quite revealing. The value added per production worker in Prince Edward Island increased by 465 percent from 1966 to 1986, but by 544 nationally during the same period. This data speaks to the need to strengthen research and development capacity and to adopt new technology quickly to the Island's production process and to invest in modernizing manufacturing plants.

The Island's service sector, as elsewhere in Canada, has registered strong growth over the past twenty years. But, again, there are important differences. Many service industries in Prince Edward Island owe their existence directly or indirectly to the primary sector. In addition, as a proportion of economic activity, public administration plays a much larger role in the Island's service sector than is the case nationally. That said, tourism continues to play an important role in the service sector and in 1989 total tourist spending amounted to nearly $100 million, a record high.

The Island's key demographic indicators and labour force participation rate also reveal important differences from those at the national level. Immigration is changing the population composition of a number of provinces, notably Ontario and British Columbia, but is only having very limited impact in Prince Edward Island. The Island also has a significantly higher percentage of people age 65 years or older. This, and the lack of employment opportunities, explain, at least in part, the Island's participation rate. Many economists point to the participation rate, the labour force as a percentage of the total working age population, as one of the leading indicator on the economic health of the region. In the case of Prince Edward Island, the participation rate has been significantly more volatile than at the national level - no doubt due also to the volatility of the primary

resource based economy. It has also been consistently lower than the national average (see figure 1).



SOURCE: Statistics Canada, Catalogues 71-201 and 71-001

Still, Prince Edward Island has witnessed solid employment growth with total employment going from 42,000 in 1975 to 55,000 in 1990. Table 3 reports on employment by selected industries and reveals that nearly 60 percent of all employment growth in non agricultural industries has been in the service sector.

TABLE 3

EMPLOYMENT BY INDUSTRY IN PRINCE EDWARD ISLAND

(1983-1989)

Industry	Employment (000's)						
	1983	1984	1985	1986	1987	1988	1989
Manufacturing	3.1	2.9	3.0	3.1	3.5	3.6	3.7
Construction	1.6	1.5	1.3	1.6	1.8	2.2	2.1
Transportation, communication and other utilities	3.1	3.2	3.0	3.0	3.1	3.2	3.1
Trade	5.3	5.3	5.4	5.7	6.3	6.7	6.7
Finance, insurance and real estate	1.2	1.2	1.3	1.4	1.4	1.5	1.4
Community, business and personal services	10.6	10.5	10.5	11.4	13.2	13.8	14.3
Public administration	4.7	4.8	4.9	4.7	4.8	5.0	5.2
Total (non-agricultural industries)	29.6	29.6	29.7	31.0	34.1	36.2	36.4
Agriculture	5.0	6.0	6.0	6.0	6.0	6.0	5.0

SOURCE: Statistics Canada, Catalogue 72-002.

The quality of the Prince Edward Island labour force, as measured by level of schooling, is strong but still lags the national average on some fronts. Prince Edward Island has a larger proportion of its working age population with less than a grade nine education compared to the Canadian average - 20.1 percent for Prince Edward Island in 1986 compared with 17.7 percent. In addition, in 1990, 9.2 percent of the Island's population had a university degree compared with 13.7 percent for Canada as a whole.

Economists also point to earned income as a key indicator of a region's economic health and here again Prince Edward Island does not fare well. Earned income, as a percentage of total personal income, has been consistently higher at the national level than in Prince Edward Island. The difference is significant. Canada's earned income as a percentage of total personal income has in recent years been above 85 percent while it has remained under 80 percent in Prince Edward Island dropping to 75.6 percent in 1987. The difference is due to government transfer payments to individuals and to lower wage rates. Government transfers in Prince Edward Island account for about 23 percent of personal income compared with about 14 percent for Canada as a whole. This speaks to a larger issue - the presence of government in the Prince Edward Island economy.

The Presence of Government in the Island Economy

A noted regional economist, W.Y. Smith, recently observed that the role of the economy in the modern world is to sustain government activities to ensure equal opportunities and social justice. He added that in the case of the maritime provinces, it is the other way around - the role of government here is to sustain the economy.

Between 1971 and 1990 spending by government departments as a percentage of total spending has been higher on Prince Edward Island than in Canada as a whole or in the Atlantic region. We have seen considerable expansion of both federal and provincial government departments on the Island during the past twenty years. Certainly, the relocation of the federal Department of Veterans Affairs (DVA) to the Island has had a strong impact if only because of the small size of the provincial economy. The result is that direct government activities in Prince Edward Island represents about 20 percent of total

spending which is about double the amount for Canada as a whole. Still, there is little downside - other than possible future cutbacks and their impact on the local economy - in having public sector jobs located in Prince Edward Island.

The problem, however, is that the ever present hand of government can easily be found virtually everywhere in the Island economy. The unemployment insurance program, for example, represents a net inflow of about $150 million annually to the Island economy. The hand of government is also present in the private sector with government assistance to Prince Edward Island business increasing from $7 million in 1970 to $87 million in 1982. Total government transfers to business as a percentage of the Gross Domestic Product stood at 4.7 percent in 1988, an increase of 1.2 percent over 1981, while at the national level we saw a drop from 3.0 percent in 1981 to 2.4 percent in 1988. Viewed from another perspective, transfer payments to businesses increased in Canada by 35 percent between 1981 and 1986 and by 128 percent in Prince Edward Island. Federal government transfers to the Prince Edward Island government are also substantial. In the fiscal year (1991-92), such transfers amounted to 44.5 percent of total provincial revenue.

In short, the presence of government in the Prince Edward Island economy is substantial. Key decision makers in Prince Edward Island are, of course, well aware of this. One senior provincial government official observed that "the Prince Edward Island economy is made healthy through massive capital inflows from Ottawa that unfortunately is not being matched by a productive capacity." He added that "when you include everything, something like 75 percent of our economy consists of federal spending. This simply cannot go on forever."

The Challenges

The pressure on the federal government to alter its spending budget comes from a number of forces and not one of them point in the direction of increased spending.

Canada's troubled unity is putting pressure on Ottawa to decentralize further fields of jurisdiction and decision-making authority. The pressure to decentralize further Ottawa's power comes not just from Quebec. It also comes from parts of western Canada,

from a growing perception that the federal revenue side has been pretty well tapped to the limit with several tax increases in recent years and the introduction of the Goods and Services Tax (GST). The pressure to cut spending to get a better handle on the deteriorating fiscal situation will increase. One can easily predict that regional development programming is slated to come under intense scrutiny. The *Globe and Mail* recently declared in an editorial that "regional development money is often wasted" and pointed to cuts in this area as a way to get a handle on Ottawa's "unruly deficit." This is not to suggest for a moment that the *Globe and Mail* based this information on solid research. It did not.

Globalization, including trade patterns arising under the Canada-U.S. Free Trade Agreement, could well redefine the relationship various regions have with one another. The "National Policy" that was always at the core of every government's economic program for over a century until the mid-1980s, has been discarded. That policy, as is well known, sought to create and strengthen East-West ties. It became widely accepted that the policy largely favoured the economies of Ontario and Quebec, in particular that of southern Ontario, and that its impact on the rest of the country was discriminatory. It will be recalled that the Ontario government fought a rearguard action on the Canada-U.S. Free Trade Agreement.

Ontario now appears less certain about its place in the federation and in its relations with the federal government and the other provinces. One observer of Queen's Park recently remarked: "Historically, Ontario was always the province most comfortable with Canadian federalism. Ontarians saw the government in Ottawa as their government, acting for a nation they saw as their own... Ottawa took care of Canada for Ontario ... and it worked. Ontario is coming to the conclusion that Ottawa no longer works in its interest."

As Ontario adjusts to the Free Trade Agreement and other global economic forces, it may well begin to hang question marks alongside programs designed to maintain Canada's east-west links, whether in the form of transfer payments to individuals or of federal regional development programs. What may well become important for Ontario is putting in place measures to undercut Michigan's cost structure rather than securing east-west links. The global economic forces will also have major impacts on the evolution of the political economy of Canada's regions. As Canada's regions become inserted differently into

the global economy, their links with the outside world will become more important relative to their economic linkages within Canada. In such a political economic environment, it may well become difficult to sustain the political commitment in wealthier provinces to interregional redistribution.

Indeed, the global economy itself may well contribute to regional fragmentation and promote decentralization. Global pressures will increasingly constrain federal policy instruments such as monetary, fiscal, trade, and redistributive policies. The result is that areas of provincial jurisdiction, such as education and infrastructure, will become the key instrument to promote economic development.

Traditional instruments to promote regional development could also lose their appeal. For one thing, the global economy will in time impose a new discipline on their use. Countries and regional traditional blocks will open up their economies on the condition that their businesses can compete on a level playing field. Countries will object to large cash grants to establish, modernize or expand businesses. In any event, there is growing evidence that key decision makers no longer favour cash grants to promote regional development as they once did. The three maritime premiers, for example, have in recent months down-played the importance of cash incentives to business as an economic development tool.

Trade barriers are also falling between the provinces, more specifically between the three maritime provinces. The three premiers have made it clear that they want the region to become more competitive. Maritime businesses will become more competitive, the argument goes, if local trade barriers are removed and if governments do not use scarce resources to continually prop up firms that cannot compete. The well managed and competitive firms will prosper and the weak ones will die - as they should.

These developments pose important challenges to Prince Edward Island businesses, particularly for many manufacturing firms. For these firms, the reality of a level playing field extends beyond cash grants and trade barriers. It includes the cost of transportation and the cost of energy which, in Prince Edward Island, are high by any standard. It also includes an extremely small local market from which they must grow and expand.

The challenge at hand for Prince Edward Island is thus great. It needs to make the transition from a highly government dependent economy to one that is more self reliant. Before presenting a series of suggestions on what can be done to promote the transition, it is necessary to look back at what has been tried over the years to promote economic development in Prince Edward Island.

CHAPTER 3
LESSONS LEARNED

In doing some preliminary thinking on how to promote economic development in Prince Edward Island, Hartwell Daley wrote that the problem was "a combination of contentment with the existing situation combined with a pessimism about the ability to change anything significantly." Mr. Daley, who became an advisor to Premier Walter Shaw, wrote this in the early 1960s. It could, however, have been written yesterday. Indeed, many of the people I consulted for this study were quick to agree that it still describes current circumstances on the Island.

Yet, both levels of government have invested substantial funds and efforts in promoting economic development in Prince Edward Island first under ARDA, then under DREE and the Comprehensive Plan, later under DRIE and the Economic and Regional Development Agreement (ERDA), and still later under the Atlantic Canada Opportunities Agency and the Cooperation Agreement. Governments have, over the past thirty years, invested millions in planning studies, agriculture, tourism, industrial development, transportation, education, housing, land use, and the list goes on. Though not by any means the most costly initiative, we know that both orders of government have invested substantial sums of money in industrial development. In planning a new package to promote industrial development, it is important to look back and see what we have learned from past efforts.

Efforts to promote industrial development have always been an important part of federal-provincial economic development measures since the early 1970s or phase I of the Comprehensive Plan. They have not been, however, the most ambitious or costly component. Early efforts looked to other sectors to promote economic development. Phase 1 of the Comprehensive Plan focused on the development of tourist facilities, agriculture, the fishery, education programs, housing, health and social services and basic infrastructure required to promote economic development.

Still, industrial development efforts were directed at creating more non seasonal employment in the manufacturing sector and they looked to both processing and

resource-oriented manufacturing in all areas of the province. An industrial development program was put in place that provided for industrial financing through loans. In addition, some assistance was made available to provide technical, engineering and special training assistance to the business community. The authors of the Comprehensive Plan decided not to put much emphasis on industrial development thinking that expansion in manufacturing would occur automatically once the primary sectors would achieve high levels of productivity. Planners were so confident that important industrial spinoff from resource-led development would take place that the plan predicted a ten percent growth in employment in the manufacturing sector over a ten-year period.

Subsequent amendments to the Comprehensive Plan, from December 1969 to 1975, saw still more emphasis placed on education (school construction), transportation, housing and resources sectors, and the family farm program. The view prevailed that if key economic sectors could be strengthened then industrial development would be sure to follow.

Things changed somewhat with phase II of the Plan. Phase II, signed in October 1975, and phase IIB, signed in March 1977, shifted emphasis and placed "economic development" programs at the top of the agenda. The economic development heading, however, included programs in agriculture, fishery, forestry, tourism, industrial development and infrastructure. To be sure, it was a comprehensive heading and simply looking at total expenditures does not in itself reveal that a new priority was being directed at industrial development. The bulk of the funding once again went to tourism, transportation, agriculture and fishery. Still, new funds were made available for the development of industrial parks, improved research and advisory services and for incentives to attract outside firms to the Island and to stimulate local firms to expand. Responsibility for implementing these measures was turned over to the provincial Department of Industry.

Industrial development measures enjoyed greater priority under phase IIB. They accounted for 25 percent of total spending under the economic development sector. Only agriculture - mainly the family farm development and new farmer programs - secured more funding - 50 percent of total spending.

Phase III of the plan, which came into force on 31 March 1981, did not reorient in a substantial fashion the plan's overall development strategy. Phase III would

continue putting emphasis on agriculture, the fishery and industrial development. Efforts were made, however, to change the project delivery mechanism. The minister of DREE called for federal departments to deliver a number of projects with DREE funds and to decrease federal funding of provincially delivered projects. As a result, nearly half of the federal funds would be earmarked for direct delivery projects by federal government departments and agencies. It is important to stress that the push for direct delivery was fuelled by a desire to secure more visibility for regional development spending on the part of the federal government and not by problems of policy and program substance or efficiency in the federal-provincial delivery mechanism.

While the Comprehensive Plan was being implemented, the federal Department of Regional Economic Expansion (DREE) was also present on the Island with its own programs. In addition to funding the Comprehensive Plan, DREE put in place an ambitious regional industrial incentive program (RDIA). The program, initially designed for slow-growth regions, became national in scope within a few years after its introduction. By the early 1980s, RDIA covered fully 93 percent of Canada's land mass and over 50 percent of the population.

Still, the maximum levels of assistance under RDIA were more generous in Atlantic Canada than in the rest of the country. The RDIA program was discretionary - DREE reserved the right to say no in that the program did not apply automatically to all new production facilities locating in designated areas. Grants were available for selected sectors only. In addition, RDIA confined itself to development grants: it established a maximum level but provided for offers at less than maximum if circumstances warranted and a two-part grant structure, one for capital cost and the other according to the number of jobs created.

Initially at least, RDIA was well received in Atlantic Canada, including Prince Edward Island. In time, however, the region became critical of the program if only because the federal government began to extend its application to more and more areas. A wider application made it more difficult for Atlantic Canada to attract outside investors.

We also know that Ottawa overhauled its regional development policy in the early 1980s. DREE was abolished, RDIA was scraped, and the Prince Edward Island

Comprehensive Plan was replaced by a broad enabling federal/provincial agreement labelled the Economic Regional Development Agreement (ERDA). Two new federal government departments were set up - the Department of Regional Industrial Expansion (DRIE) and the Ministry of State for Economic and Regional Development (MSERD). A new industrial incentives program - the Industrial and Regional Development Programs (IRDP) - was also established to replace the RDIA program.

IRDP provided financial assistance to both business and non-profit organizations through cash grants, contributions, repayable contributions, participation loans, and loan guarantees. This assistance was available for the various elements of "product or company cycle;" economic analysis studies; innovation (including product development); plant establishment; plant modernization and expansion; marketing (including exact development measures); and restructuring.

All of Canada was covered under IRDP. An important distinguishing characteristics of the program was the "development index." The index established the needs of individual regions, as far down as a single census district. All were arranged in four tiers of need. The first, for the most developed 50 percent of the population covered districts with a need for industrial restructuring. In this tier, financial assistance was available for up to 25 percent of the cost of modernization and expansion. At the other end of the spectrum was the fourth tier, which included the 5 percent of the population living in areas of greatest need (based on level of employment, personal income, and provincial fiscal capacity). In this tier, financial assistance was available for up to 60 percent of the cost of establishing new plants.

Both DRIE and IRDP met with a cool reception in Atlantic Canada. DRIE was considered bureaucratic, slow and insensitive to the needs of the region. IRDP was widely criticized because, instead of narrowing the application of regional development incentives, it was extending it to *all* regions of the country. It is true that tier 4 of the program called for more generous assistance. However, tier 4 provided for a maximum and not an automatic level of assistance. Instances were reported where firms which sought funding in Atlantic Canada in a tier-4 region and in Ontario in a tier-2 region decided on Ontario because the offers there were more generous. The explanation is that the Ontario

DRIE office offered the maximum under tier 2 while the local Atlantic DRIE office did not under tier 4.

As noted earlier, the federal government attached considerable importance during the early 1980s, to securing visibility for its spending in regional development. Ottawa felt that it could never get proper visibility and credit under federal/provincial agreements that saw the provinces deliver the programs. As a result, the federal government began to deliver directly a number of programs and measures that had in the past been delivered by the provinces.

Things would not be different in Prince Edward Island. An ERDA agreement was signed but the federal government decided to deliver directly some programs. One such program was an industrial development package. As a result, no industrial development agreement was signed between federal government and the Prince Edward Island government under the ERDA agreement. Accordingly, it is impossible to look at lessons learned during the mid 1980s because no federal-provincial agreement promoting industrial development was in place. One can only look to DRIE programs in place during that period but precious few would argue that there is much that is positive here.

Ottawa once again decided to overhaul its regional development efforts in the mid 1980s. DRIE, IRDP - and eventually the ERDA - were discarded. A new federal government agency, designed solely for Atlantic Canada, was established. ACOA quickly developed a new incentives program and labelled it the ACTION program. The ACTION program is different from previous incentives program in that it has expanded sectoral eligibility, has more flexible assistance for the study of business ideas and rigid national guidelines were dropped. The program's central purpose is to foster the development of entrepreneurs and to increase the number of business start ups in Atlantic Canada. The response to the ACTION program has been strong. Indeed, the response from the private sector has been about fifteen times the average than it was under earlier programs. In addition, the number of applications approved under the program in 1988-89, for example, was over 5,000 - almost twenty times the average under earlier federal programs between 1984 and 1988. Prince Edward Island has responded particularly well to the program. Table 1 reveals that the Island secured $32,580,091 in contributions from the program from its

inception to 9 July 1990. On a per capita basis, the ACTION program has been more successful in Prince Edward Island than elsewhere.

TABLE 1
ACTION PROGRAM EXPENDITURES BY PROVINCE
FROM INCEPTION TO 9 JULY 1990

Region	Contributions	IBD	Loan Insurance
Head Office	6,124,495	0	0
Newfoundland and Labrador	63,431,847	1,638,777	0
Prince Edward Island	32,580,091	1,066,195	0
New Brunswick	112,370,447	4,227,912	0
Nova Scotia	55,169,789	2,060,322	0
Cape Breton	40,070,459	233,930	0
TOTAL	309,747,128	9,227,146	0

ACOA also proposed a Cooperation program to replace the ten-year ERDA program it inherited. The federal government approved the program in July 1989 together with a new policy framework to guide its implementation.

The new policy focused on initiatives which sought, over time, to increase earned incomes and job opportunities through a strengthened private sector, with a particular emphasis on small and medium-sized businesses. The shift was away from basic development infrastructure, such as roads, ports, etc., the opening up of resource industries and supplementing the capital pool for business and towards entrepreneurship, human

capital, technology, networking and trade development. Federal priorities were to be keyed to five principal themes:

- entrepreneurship
- innovation and technology transfer
- marketing and trade development
- human resource development
- the environment

and the supporting themes of:

- resource competitiveness
- rural diversification
- strategic infrastructure

Two rounds of Cooperation initiatives have been held since the program was established. Table 2 reports on the Cooperation subsidiary agreements signed between the federal government and Prince Edward Island.

A cursory look at the Prince Edward Island agreements reveals that they have put in place a number of programs in support of the key themes identified above. For example, 88 percent of the funding in the Prince Edward Island energy agreement is allocated to the strategic themes and the proposed strategic technologies agreement deals with all five themes.

TABLE 2
SIGNED COOPERATION AGREEMENTS
PRINCE EDWARD ISLAND

AGREEMENT		SIGNED	TERMIN.	FED. SHARE	(%)	PROV. SHARE	(%)	TOTAL VALUE
ERDA, 1984 - 1989								
Alternate Energy		13/06/84	31/03/89	8.00	80%	2.00	20%	10.00
Planning		13/06/84	31/03/89	0.50	50%	0.50	50%	1.00
Agri-food		13/06/84	31/03/89	26.00	63%	15.00	37%	41.00
Tourism		13/06/84	31/03/89	5.80	65%	3.19	35%	8.99
Fisheries		13/06/84	31/03/89	7.50	75%	2.50	25%	10.00
Transportation		13/06/84	31/03/89	25.00	60%	16.90	40%	41.90
Area Industrial Commissions		23/05/85	01/01/90	0.65	65%	0.35	35%	1.00
Meat Plant		23/05/85	31/03/86	4.50	43%	6.02	57%	10.52
Industrial Competitiveness		13/09/85	13/09/87	6.80	80%	1.70	20%	8.50
Minerals		02/01/86	01/01/89	0.24	80%	0.06	20%	0.30
Livestock Feed		01/05/87	31/03/91	11.50	100%	0.00	0%	11.50
Industrial Development	(Note 1)	03/04/87	31/03/92	37.45	70%	16.05	30%	53.50
Forestry II		23/06/88	31/03/93	14.20	59%	9.88	41%	24.08
Subtotal				*148.14*	*67%*	*74.15*	*33%*	*222.29*
COOPERATION, 1989								
Agriculture		06/10/89	31/03/94	14.00	56%	11.00	44%	25.00
Transportation		20/10/89	31/03/94	15.00	50%	15.00	50%	30.00
Fisheries Development		20/10/89	31/03/94	7.50	71%	3.10	29%	10.60
Alternative Energy	(Note 2)	12/02/90	31/03/94	5.46	70%	2.34	30%	7.80
Marketing (Interim)		30/03/90	09/30/90	1.00	70%	0.43	30%	1.43
Cultural Development	(Note 3)	02/08/90	31/03/94	4.50	69%	2.05	31%	6.55
Subtotal				*47.46*	*58%*	*33.92*	*42%*	*81.38*
COOPERATION, 1990								
Planning		12/06/91	31/03/95	0.50	50%	0.50	50%	1.00
Rural Economic Development		12/06/91	31/03/95	2.04	65%	1.10	35%	3.14
Tourism	(Note 4)	30/10/91	31/03/95	5.22	58%	3.78	42%	9.00
Subtotal				*7.76*	*59%*	*5.38*	*41%*	*13.14*

1. As amended March 30, 1990 and October 10, 1990.
2. Includes $0.46 M from EMR in 1989/90.
3. As amended July 31, 1991.
4. Also includes a private sector contribution of $2.1 million.

SOURCE: ACOA-PEI, November 1991

Though the federal government is still very much concerned with securing proper recognition and visibility for its spending, it has signed, as we just noted, a host of subsidiary agreements with the four Atlantic provinces. One such agreement is the Canada-Prince Edward Island industrial development subsidiary agreement. Signed on 3 April 1987, the agreement has 31 March 1992, as a final date for approving new projects.

The agreement's objectives are ambitious. The agreement seeks "to improve the climate for industrial development, expand and diversify the Island economy, increase the level of productivity and innovation in local firms, and assist the development of small business." The agreement provides for four programs:

1- Strategic Developments Program;

2- Small Business Enhancement Program;

3- Productivity, Innovation and Technology Advancement Program;

4- Infrastructure Support Program.

There is no need to describe in detail the four programs. Suffice to note that the programs provide funding for opportunity development and support, investment promotion, industrial prospecting, management and entrepreneurial development, to stimulate investment in manufacturing, processing and selected service industries, to acquire new technologies, and to develop and upgrade industrial infrastructure support systems and to sponsor feasibility studies. Table 3 provides a breakdown of program cost.

TABLE 3
SUMMARY OF ESTIMATED COSTS 1987-1988 TO 1991-1992
CANADA-PRINCE EDWARD ISLAND SUBSIDIARY AGREEMENT
ON INDUSTRIAL DEVELOPMENT

Programs	Total	($ millions) Federal	Provincial
1. STRATEGIC DEVELOPMENT PROGRAM	18.0	12.6	5.4
1.1 Opportunity Development and Support			
1.2 Investment Promotion			
1.3 Strategic Opportunities			
1.4 Public Information and Evaluation			
2. SMALL BUSINESS ENHANCEMENT PROGRAM	5.0	3.5	1.5
2.1 Manufacturing and Processing and Service Industries			
2.2 Management and Entrepreneurial Development			
2.3 New Business Development (Industrial Prospecting)			
2.4 Business Education Linkage			
3. PRODUCTIVITY, INNOVATION AND TECHNOLOGY ADVANCEMENT PROGRAM	3.0	2.1	0.9
3.1 Technology Development and Acquisition			
4. INFRASTRUCTURE SUPPORT PROGRAM			
4.1 General	7.5	5.25	2.25
4.2 Waste Water Treatment Plant A	10.0	7.0	3.0
4.3 Waste Water Treatment Plant B	10.0	7.0	3.0
Total	27.5	19.25	8.25
TOTAL	53.5	37.45	16.05

SOURCE:Department of Industry, Government of Prince Edward Island

The provincial Department of Industry plays a key role in implementing the industrial development subsidiary agreement. It takes the lead role in implementing the programs, notably, the small business enhancement program and the industrial infrastructure support program.

The department houses a small business development division. It has established five regional business development offices which provide advisory and counselling services to entrepreneurs. The advisory service assists entrepreneurs in the development of business proposals, provides some financial assistance to retain consultants and industry specialists and outlines government programs available to entrepreneurs wishing to pursue new and expand existing economic activities.

The department has also established a one-person unit to monitor developments in international and interprovincial trade. The person represents the province at federal-provincial meetings on the Canada-U.S. Free Trade Agreement and other international trade issues. The department also has a capacity to promote human resource development. It works with the CEIC to determine the training needs of employers and employees and then puts in place measures to provide the necessary skill training.

In recent years, the PEI Development Agency has been actively prospecting for new investments. It has promoted Prince Edward Island as a place to invest in central Canada and elsewhere. It hears about possible investment opportunities from a variety of sources and then goes knocking on doors to see if they can be attracted to the Island. In recent months, the office has concentrated on attracting new investments to Summerside and capturing benefits for Prince Edward Island firms flowing out of the construction of the fixed link.

Last year, the department established a small office in Hong Kong in collaboration with Dr. Young. Dr. Young, because of his connection with Prince Edward Island - where he studied, contributes a good part of the funding of the office. The office now serves a number of purposes. It follows up on potential investment leads identified in Canada and promotes Prince Edward Island as a place to invest. It plans to focus its efforts in the coming months on promoting Prince Edward Island as a place for Hong Kong entreprencurial investment and immigration.

An Assessment of Past Efforts

As we already noted, the federal government and the province have over the years launched ambitious and costly programs to promote economic development on the Island. The question we now need to ask is whether these efforts have been successful. We know that they have had an impact on the Island economy, but we do not know much else with any certainty.

Attempts to evaluate, with any degree of precision, the impact of federal and provincial programming to promote regional development are fraught with danger. For one thing, the importance of such measures - however important they may be to the local economy - can never have the same impact as other measures, notably interest rates, the value of the Canadian dollar, and even other federal government expenditures, such as transfer payments to provincial governments and individuals. It is impossible to isolate all these factors to get a clear picture of the impact of regional development programming on a local economy, including that of Prince Edward Island.

There are other major stumbling blocks in evaluating regional development programs. Programs have not always been consistent or ongoing. Joint federal/provincial programs were launched only to be dropped a few years later because they did not secure sufficient visibility for one level of government. In short, new policies and new programs have been introduced not simply because existing ones were no longer effective, but because they were not sufficiently visible.

To be sure, evaluations of past efforts have been done. A series of evaluation studies have been conducted, beginning in 1973. One of the first evaluation study ever undertaken in Prince Edward Island reported that "There is no doubt that during and as a result of Plan spending, the economic and social position of Islanders has improved not only absolutely but relative to the nation. However, in itself, that result is incidental to the main goal of the Plan; i.e. to increase the viability of the Island economy by increasing the utilization of its natural and human resources on a self-sustaining basis with Agricultural Development as the main vehicle." The evaluation went on to argue that the province had become more dependent on federal transfer payments rather than less both in terms of

personal income and the provincial budget. Later on, however, other evaluation reports argued that the Comprehensive Plan did not provide for any technical methods for evaluating its achievements or failures.

Evaluations of subsidiary agreements in Prince Edward Island have also been carried out. Their findings were predictable - it was much too early to assess fully the impact of a given agreement and it was difficult to go beyond reporting what was accomplished and how it was accomplished.

It is possible to produce more precise evaluation of self-contained regional industrial incentive programs. Perhaps for this reason, we have seen numerous highly technical evaluations of such programs. What do the evaluations tell us? The Economic Council of Canada found that the incrementality of projects under an incentive program to be between 25 and 59 percent and that of jobs between 35 and 68 percent. An investment project is considered incremental if the firm, without assistance, would not have undertaken the project or would have undertaken it outside the designated region. The lower rates, 25 and 35 percent, represent, according to the Council, a very conservative estimate. On the whole, the Council found an industrial incentives program to be beneficial, with a benefit-to-costs ratio of between 3 and 19 to 1. The Council concluded: "The subsidies ... seem successful enough to be a paying proposition. The value of the jobs created appears to outweigh the inefficiency involved in locating production inappropriately."

Others have found that regional incentives grants have relatively little influence on the investment decisions of large firms. Still others have found that incrementality tended to be higher when the projects involved were small, entailed new products; when equipment was modernized; when an element of high risk and high profitability existed; and when foreign competition was high. Incrementality tended to be lower for larger projects undertaken by firms that had experience with similar projects; projects that were necessary for the normal continuation of a firm's operations; and projects showing a high profit/investment ratio.

However, it is important to recognize that incrementality is a controversial issue. The lack of consensus about it may well stem from the difficulty of measuring it reliably. One observer explained the difficulty: "Normally one is taxed or subsidized for

doing something regardless of whether one would do it or not in the absence of the tax or subsidy. It is as though the family allowances were restricted to children who would not have been conceived, in its absence, or Crow's Nest Pass rates restricted to grain that would not have been grown if freight rates were higher."

To sum up, what do the various technical evaluations tell us and how helpful are they in shaping a new subsidiary agreement on industrial development for Prince Edward Island? They are of limited value. The fact that there were no industrial development subsidiary agreement for Prince Edward Island during the mid 1980s makes it difficult to draw on past experiences to see what works and what does not. There is little interest in doing an evaluation of either DRIE activities on the Island or its IRDP program. Both are history and government officials and planners are quite naturally more interested in looking to the future than to past efforts that many intuitively know did not work very well.

It is too early to evaluate the impact of the ACTION program on the Prince Edward Island economy. What we do know is that the Island's business community has made full use of the program and in that sense the program is successful.

In a recent review of its ACTION program, however, ACOA reported that the program was becoming uncompetitive with federal government assistance offered to the private sector in other regions in Canada. Attractive federally-funded incentive programs are now in place in Quebec, western Canada and northern Ontario. While the availability of financial assistance is not always the key factor in a business investment decision, it can play a crucial role. Certainly, the uncompetitiveness of the current assistance package limits the federal government's ability to sell the maritime provinces, in particular Prince Edward Island with its higher energy and transportation costs, as an investment location.

The current industrial subsidiary agreement is still in force and so it is too early to undertake a thorough *post facto* review of its successes and shortcomings. Still, we can report that the agreement does make assistance available to launch new businesses but that the assistance is geared to small businesses and to aspiring entrepreneurs. We saw that highly sophisticated evaluations of industrial incentives programs report that the incrementality in such programs is higher "when projects [are] small..." This would suggest that the subsidiary agreement is on the right track.

Given that it is too early to undertake a *post facto* review of the agreement's successes and shortcomings, I made it a point of securing the opinions of the many federal and provincial officials and private sector representatives I met on the implementation of the industrial subsidiary agreement. Their comments proved insightful and extremely valuable. All the individuals consulted were not only deeply interested in the subject but also very anxious to share their knowledge and their views on what works and what does not.

What did we learn? With the benefit of hindsight, we know that there is no easy answer and no panacea for development. That said, we also know that many of the measures introduced in Prince Edward Island since 1970 have had a positive impact. Earned per capita income as well as participation and unemployment rates do not tell the whole story. Some observers, particularly those that have not seen first hand the progress Prince Edward Island has made on numerous fronts over the past twenty years, are tempted to look only at economic indicators and declare boldly that the efforts have not worked and should be scrapped.

There are several things that one ought to bear in mind before he or she decides to throw out the proverbial baby with the bath water. First, when one compares the performance of the Prince Edward Island economy with those of, say, Ontario and parts of western Canada during the late 1980s, one is comparing the Island with some of the world's leading economic hot spots. Second, twenty years in the economic life of Prince Edward Island is not a long time. When governments began to address the economic underdevelopment of Prince Edward Island in earnest in the early 1970s, they were looking at an economy that had been largely stagnant or in the decline the previous eighty years or so. We know, for example, that the population of Prince Edward Island in the early 1890s was nearly at the level it is today.

More importantly, however, we know that many of the measures introduced have been successful. A good number of economic observers throughout Canada are now pointing to the Island's success stories in tourism. These success stories would not have taken place had governments not intervened. The same can be said about investments in the Island's school system, infrastructure facilities and industrial development. A stronger educational system on the Island has benefitted not just Prince Edward Island but other

regions of Canada as well. We have seen many young people leave the Island over the past fifteen years to find employment in southern Ontario or elsewhere. They migrated with a better education and superior skills than would have otherwise been the case.

This is not to suggest that all government-funded regional development efforts on Prince Edward Island have been successful. They have not. It would have been unrealistic to think even for a moment that all regional development projects would be successful. When you set out to turn an economy around that has been somewhat dormant for eighty years of so, you have to take risks. Risks mean that you will have failures.

We also now know that past efforts on the whole have not paid sufficient attention to the population factor. That is, we concentrated on building the infrastructure, developing industrial incentives programs, and specific sectoral programs thinking that the people would respond. In the process, we have not concentrated on what Hartwell Daley describes as a "contentment with the existing situation combined with a pessimism about the ability (of Islanders) to change anything significantly."

We now know that regions are heterogeneous and that human behaviour is heterogeneous from one region to another. We know that, to be successful, economic development measures need to be based on the characteristics of the people living there, as well as on the peculiarities of its physical environment.

Prince Edward Island is an island and this holds obvious implications for economic development. We need to know more about how Islanders themselves view their economic development, what their aims, aspirations and values are. We need to isolate the principal barriers to development, physical, psychological and institutional and then we must seek remedies or solutions that will remove or offset them, or provide a way around or over them. The people I consulted know this - some of them intuitively. They spoke to these issues. They also know that, more than at any time in the past, the economic future of Prince Edward Island is in the hands of Islanders themselves.

As a general observation, the people consulted also made it clear that infrastructure development is a much easier task than promoting economic development, although clearly the two flow into one another. Still, we know that infrastructure development is more easily controlled by public sector authorities than is the economy.

A number of the people consulted also pointed to the structure of government as a constraint to economic development. One increasingly senses, as a former federal minister responsible for regional development once observed, that this is as crucial to the success of the regional development efforts as the policy itself. Regional development, more than any other public policy field, needs a capacity to be creative, to adjust quickly to changing circumstances, to challenge the status quo and often conventional thinking both inside government and in the regions, to deliver initiatives quickly with a minimum of red tape and to be in the field working with key economic actors and having the authority in the field to plan and make decisions. One hardly thinks of government bureaucracies when one thinks of these requirements. We now need to think of different organizational models to get the job done.

We see signs everywhere that the passing industrial society will leave in its wake many of the government organization models it engendered. We have organizational models that were structured and designed for the industrial era and for military purposes in a time when wars were fought on the battle field with what have now become unsophisticated equipment. The models of organization, line and staff, the way subjects are studied, the hierarchical nature of government departments and agencies are pure nineteenth century administrative techniques.

The current structure of government was probably particularly well suited to deliver large scale services - like the mail and transportation services - in a consistent, objective and effective fashion. The delivery of large scale and routine services were the main challenges for governments virtually into the 1950s. The 1960s, however, saw the advent of a host of highly "flexible" programs designed to spur economic development at the national, regional and community levels, to promote adjustment in selected sectors and to assist disadvantaged groups. Policy advice and program evaluation capacities were required to develop and assess these initiatives, but they were simply added on to the existing machinery of government. Meanwhile, central agencies put in place new measures designed to keep all these new developments under control with line departments responding with still more administrative units to keep up with new centrally prescribed procedures and controls.

What does all of this means for future regional development efforts in Prince Edward Island? It means above all that we ought to be prepared to experiment with new administrative structures to deliver economic development programs. The Prince Edward Island government is set to launch sweeping changes to the way it delivers some of its programs. The reforms hold considerable promise and we will return to this later in the report.

But what has been learned from existing and past economic development program in terms of specifically what works and what does not? It is quite clear that the existing subsidiary agreement in industrial development is working extremely well. Indeed, I hardly heard *one* negative comment about the agreement and its programs. What is remarkable is that the view that the existing industrial subsidiary agreement is a success is widely held by people from different perspectives and background. Provincial Cabinet ministers are highly positive about the work of the agreement. This is also true of provincial government officials working out of Charlottetown as it is of officials working in regional and local offices. The same is true of federal government officials. With very few exceptions, private sector representatives also applauded programming under the current subsidiary agreement. The ones who did not were more concerned about the fiscal positions of both levels of government and much less about the agreement itself or about the programs.

Time and again, I heard that the agreement was looking at the right issues and constraints, that it had the right program mix, and that it was highly flexible - an important feature of any economic development programs. A few people went as far as insisting that finally we were "on the right track" in promoting industrial development and "don't go recommending anything that would upset the apple cart." They reported that "whatever needs to be done can now be done under the subsidiary agreement" and that "this has been demonstrated often during the past three years or so." Others insisted that "PEI did not need any more programs. What we now have is more than adequate."

On the face of it, one is tempted to recommend that we leave well enough alone. There is no doubt that the governments of Canada and Prince Edward Island have struck a successful industrial development agreement and that it is working well. The fact that the provincial government has decided to launch important administrative and structural

reforms of its government and public service only adds to the view that the provincial government is pushing in the right direction. There is also little doubt that, if both governments were to agree to sign another industrial subsidiary agreements patterned along the lines of the existing one, they would not go wrong.

However, if the goal is to see Prince Edward Island move towards a more self-reliant economy then a second generation industrial development subsidiary agreement will not suffice. To be sure, another agreement is an important part of what needs to be done, but it will not be enough.

Before looking to future efforts, it is important to highlight some of the lessons learned from past efforts. Briefly stated, they are:

- Contrary to the widely held perception, governments have not over the years placed as much emphasis on industrial development as they have on other sectors.
- Incentives to the private sector are generally more effective when the projects are small, involve new products, when equipment are modernized and when foreign competition is high.
- It is much too early to do a thorough evaluation of the current Canada-Prince Edward Island Industrial Development Agreement and report on successes and shortcomings.
- It is clear that many of the past economic development efforts in Prince Edward Island have been successful. The most obvious examples are in tourism.
- Prince Edward Island is an island economy and this holds obvious implications for economic development. We need to know more about how Islanders themselves view their economic development. We need to isolate the principal barriers to development, physical, psychological and institutional and then we must seek remedies to offset them.
- The structure of government, or how government is organized, may well constitute a constraint to economic development. Regional development, more than any other public policy fields, needs a capacity to be creative, to

adjust quickly to changing circumstances, to challenge the status quo and conventional thinking, to deliver initiatives with a minimum of red tape and to be in the field working with key economic actors and having the authority in the field to plan and make decisions. One hardly thinks of government bureaucracies when one thinks of these requirements.

- By *all* accounts (i.e representatives of the private sector, the federal government, the provincial government both in head office and field offices), the existing subsidiary in industrial development has worked extremely well, has the right program mix, is extremely flexible, and is capable of capturing development opportunities.

CHAPTER 4
WHAT TO DO?

In the introduction we reported that Prince Edward Island needs to make the transition from a dependency on transfer payments to a more self-reliant economy. We also pointed to various powerful forces at play both in Canada and in the international marketplace which suggest that Prince Edward Island needs to make the transition as quickly as possible. We added, however, that the transition will not be easy, that it will not happen overnight but that it is possible. We went on to suggest that Prince Edward Island needs to overhaul not so much what it is currently doing in economic development but how it does it.

We write this because Prince Edward Island and ACOA have put in place important joint programs through their ERDA and Cooperation agreements. By *all* accounts, the industrial subsidiary agreement has the right mix of programs for current economic circumstances and is being successfully implemented. In short, it is not too much of an exaggeration to suggest that the programs are at the leading edge of new thinking about what can be done to promote economic development. That said, it will likely not be enough to ensure that Prince Edward Island makes the transition to a more self-reliant economy. To do this, we will have to break out of existing policy parameters and go beyond putting in place initiatives that fall within the current fashion and fad in regional development programming.

Revisiting the Challenge

As we saw earlier, the challenge at hand is immense - to see Prince Edward Island lessen its dependency on federal transfer payments which today, in one form or another, account for a major share of the Island's economy - with some going as far as suggesting that they constitute as much as 75 percent of the provincial economy. Less, there are any doubts about it, however, our consultations revealed quite clearly that Islanders are anxious to see their province become more self-reliant economically.

The questions we now need to address are how do we promote self-sustaining economic development in Prince Edward Island and what are the necessary measures to ensure that the Prince Edward Island economy can participate fully in the global economy?

The current thinking underpinning regional economic development policy in Canada is that the private sector must show the way ahead. We accept this for Prince Edward Island, but only up to a point. To be sure, the private sector must play a lead role if Prince Edward Island is to meet the challenge. Certainly ACOA and the provincial government should continue to promote entrepreneurship - the latest fad in economic development - and to look to other means to strengthen its private sector.

But the public sector, notably the federal government, must also play a lead role if Prince Edward is to become more self-reliant. Slowly turning off the transfer payment tap thinking that the local private sector can somehow pick up the slack will not work. The public sector must intervene not simply with special programs to assist the private sector develop and grow, but also turn to its own activities to promote economic development in Prince Edward Island. In short, both sectors have an important role to play.

The Private Sector

The Island's private sector relies heavily on external trade and sells a large proportion of its products in international markets. Without growth in out-of-the-province markets, the Prince Edward Island economy will not be able to create many new private sector jobs. When looking at potential new markets outside of the provinces, one must also look at the forces at play in the international marketplace. They will have considerable impact on Prince Edward Island businesses.

What are these forces? We know that North America and parts of Europe entered a recession in late 1990 which is proving difficult to break away from. The slowdown has been broadly felt in terms of geography and economic sectors. Indeed, sectors like the service sector which have traditionally been recession proof are now experiencing difficulty. Economists are predicting that, once North America comes out of the recession, it will enter a normal business cycle which could last until the end of the century. They are

also forecasting, however, that the 1990s will witness slower growth than the 1980s in part because the manufacturing sector will continue to shift to lower-cost centres.

There is also every reason to assume that the trends towards globalization will continue, if not intensify, during the 1990s. Intense global competition, the rapid application of new technological developments, increasingly global capital markets and the strong emphasis on new skills and new knowledge will become even more important for the business community. In short, then, the market will become increasingly global and increasingly competitive.

What does an economy require to be competitive in the global economy? We know that the world's most successful economies share a number of common features, notably a dynamic outward looking private sector as the main vehicle to ensure that the economy is internationally competitive; strong state-industry cooperation in the provision of transportation, communications, research and development, education, innovation and technology transfer; a strong commitment to human resource development, in particular, education and labour market training; and other supporting social and institutional factors, including policies which facilitate positive structural change, a tax and regulatory environment which supports investment and a fiscal and monetary policy which supports competitiveness.

Increasingly, entrepreneurship is regarded as a key force in the development of a community and regions. Indeed, as we saw earlier, it is the latest fad in regional development thinking and many have in recent years looked to entrepreneurial dynamism to put slow-growth regions back on their feet.

How does one measure the dynamism of a region's entrepreneurial spirit? To be sure, it is difficult. It is, however, possible to look at indicators that can reveal the strength of a region's entrepreneurial spirit.

To do so, one needs to group together a number of indicators. Such indicators should include the number of new business start ups, number of self-employed people, the level of exports, funds spent on research and development and on private sector investment (gross fixed capital formation), and the use of new technologies as measured by the number of computer per 10,000 inhabitants and the number of staff members per research institution.

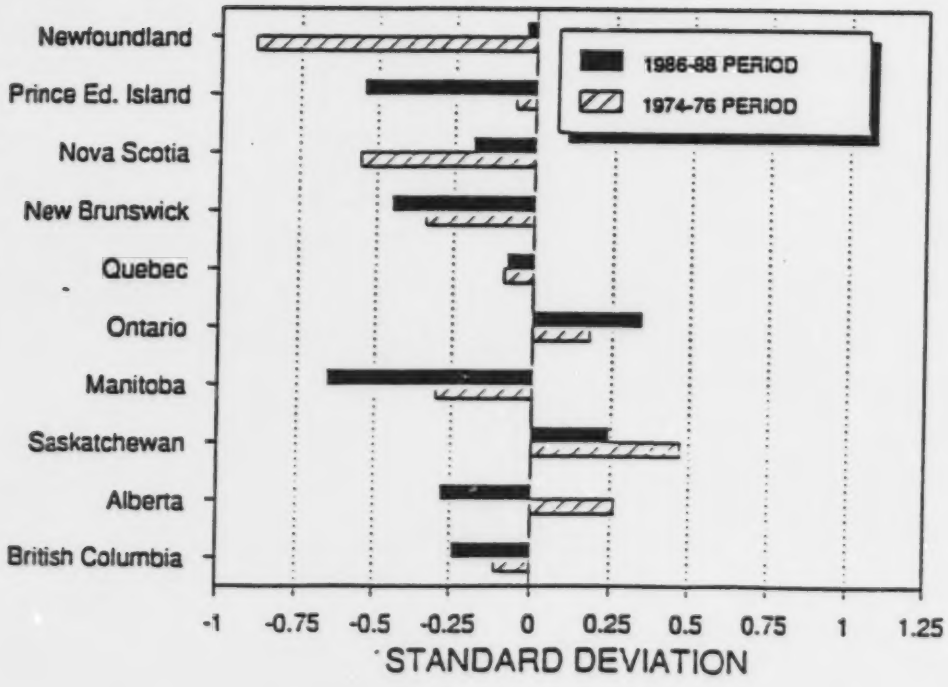
Table 1 and Figure 1 below report on the state of entrepreneurship in all ten provinces during two periods, 1986-88 and 1974-76. They report considerable movement among the provinces between the two periods. Prince Edward Island dropped from fourth position during 1974-76 to ninth between 1986-88. Where Prince Edward Island does poorly is in research and development, low level of technological application, gross fixed capital formation and new business start ups.

TABLE 1
STANDARDIZED VARIABLES FOR THE ENTREPRENEURSHIP INDEX
(the province's rank is indicated between brackets)

	Entrepreneurship Index	Sub-indices						
		E1	E2	E3	E4A	E4B	E5A	E5B
1986-88 Period								
Manitoba	-0.65(10)	-2.05(10)	0.79(3)	-0.82(6)	-0.00(6)	-1.35(9)	-0.08(5)	-0.93(6)
Prince Edward Island	-0.54(9)	-0.42(7)	1.03(2)	-1.34(8)	-0.58(10)	-0.69(3)	-1.31(9)	-1.32(7)
New Brunswick	-0.45(8)	-0.11(5)	-0.32(8)	-0.14(2)	-0.10(7)	-1.02(7)	-0.95(8)	-1.32(7)
Alberta	-0.23(7)	-0.56(9)	0.56(5)	-1.18(7)	0.35(4)	-0.72(4)	0.52(3)	-0.59(3)
British Columbia	-0.24(6)	-0.24(6)	0.77(4)	-0.76(5)	-0.55(4)	-0.73(5)	0.01(4)	-0.65(4)
Nova Scotia	-0.19(5)	0.83(2)	-0.07(7)	-0.41(4)	0.59(3)	-1.15(8)	-0.75(6)	-1.32(7)
Quebec	-0.08(4)	0.03(4)	-0.34(9)	0.20(2)	-0.32(8)	0.07(2)	-0.88(7)	0.59(1)
Newfoundland	-0.03(3)	2.04(1)	0.12(6)	-1.46(9)	2.63(1)	-1.56(10)	-1.47(10)	-1.32(7)
Saskatchewan	0.24(2)	-0.50(8)	2.63(1)	-1.56(10)	1.37(2)	-0.97(6)	1.82(1)	-0.90(5)
Ontario	0.34(1)	0.33(3)	-0.49(10)	0.86(1)	0.01(5)	0.95(1)	0.57(2)	0.49(2)
1974-76 Period								
Newfoundland	-0.89 (10)	-1.40(10)	-0.16(8)	-1.34(8)	1.39(3)	-1.56(10)	-1.38(10)	-1.32(7)
Nova Scotia	-0.55 (9)	-0.79(8)	0.02(6)	-0.18(4)	-0.24(8)	-1.15(8)	-0.85(7)	-1.32(7)
New Brunswick	-0.34 (8)	-1.01(9)	-0.02(7)	-0.16(3)	2.21(1)	-1.02(7)	-0.91(8)	-1.32(7)
Manitoba	-0.30 (7)	-0.08(6)	0.53(4)	-0.80(6)	0.23(5)	-1.35(9)	-0.24(5)	-0.93(6)
British Columbia	-0.11 (6)	0.31(4)	0.10(5)	-0.65(5)	0.70(4)	-0.73(5)	0.09(4)	-0.65(4)
Quebec	-0.09 (5)	0.06(5)	-0.43(10)	0.14(2)	-0.35(9)	0.07(2)	-0.78(6)	0.59(1)
Prince Edward Island	-0.06 (4)	0.79(3)	1.70(2)	-1.14(7)	0.12(7)	-0.69(3)	-1.36(9)	-1.32(7)
Ontario	0.18 (3)	-0.50(7)	-0.21(9)	0.88(1)	-0.54(10)	0.95(1)	0.56(2)	0.49(2)
Alberta	0.26 (2)	1.69(1)	0.79(3)	-1.44(9)	1.45(2)	-0.72(4)	0.42(3)	-0.59(3)
Saskatchewan	0.47 (1)	1.60(2)	2.44(1)	-1.71(10)	0.22(6)	-0.97(6)	1.71(1)	-0.90(5)

E1 = Creation of new enterprises (growth)
E2 = Proportion of self-employed workers in the economy
E3 = Value of exports as a proportion of GDP
E4A = Gross fixed capital formation as a proportion of GDP
E4B = *R & D* expenditures as a proportion of GDP
E5A = Number of computers per capita
E5B = Number of researchers per institution.

FIGURE 1
ENTREPRENEURSHIP INDEX
1986-88 AND 1974-76



Promoting entrepreneurship in Prince Edward Island poses a different challenge than in other provinces, including other Atlantic provinces. Our findings suggest that in Prince Edward Island, we will need to focus efforts on promoting new *business start ups*, *investment*, *the application of new technology* and *research and development*. One can also add that new efforts are required in identifying new *markets* and in encouraging local businesses to think of searching for new markets beyond the Island or even eastern Canada. These areas should constitute the centerpiece of a new industrial development strategy.

How does one promote new business start ups? We are convinced that the current Prince Edward Island subsidiary agreement on industrial development has the right program mix to promote new businesses. One assumes that if a similar survey employing the same indicators were carried out in, say, 1995-96, Prince Edward Island would show strong progress. The current subsidiary agreement makes available, among other things, a small cash grant to aspiring entrepreneurs (e.g. encouraging fixed capital formation), and assistance to facilitate the introduction of new technologies to the Island. This, and the other programs in the subsidiary agreement, are important means of promoting entrepreneurship.

Still, there is a need in Prince Edward Island to look at entrepreneurship from a long-term perspective. The view that entrepreneurs are born, not made, is increasingly being challenged. In fact, there is now a growing body of literature that suggests that entrepreneurs can be developed. Most of the entrepreneurs in this region have learned their skills either from others already in business or from starting a business and perhaps failing at first.

From all accounts, there has been insufficient efforts to point to entrepreneurs as role models for young Islanders. One individual we consulted reported that the school in her area invariably invites a local RCMP officer and a nurse to talk to high school students during orientation week. We argue that local schools could do a great deal more to stress the importance of entrepreneurship as a career choice for Islanders. This is not to suggest that the school curriculum should be completely overhauled to place entrepreneurship front and centre in future study programs. Though we would applaud a greater emphasis on entrepreneurship in school programs, it is beyond the scope of this

report to make specific recommendations in this area. We simply want to stress that schools should look to entrepreneurship as a viable career choice for young Islanders when planning activities such as orientation weeks.

The University of Prince Edward Island (UPEI) should also look for ways to promote entrepreneurship in planning its activities. This is particularly important for the School of Business. We know that our business schools in the three maritime provinces have been very successful in developing accountants and managers for large firms such as Canada's big five banks. They have been less successful, however, at showing how the local population could provide the energy, the skills and the imagination to conceive and organize new economic activity. To be sure, this is a tall order and no school of business, however well endowed, can do this overnight. This is why we urge the provincial government and the Island's teaching institutions to look to entrepreneurship from a longer term perspective.

There are a number of things UPEI could do to promote entrepreneurship and economic development. Our discussions with UPEI suggests that the University is quite willing to look to new activities. The dean of the School of Business pointed to possible new emphasis in small business management and entrepreneurship in the school's study program. He spoke at some length about establishing a co-op student program with the local business community. Such a program would give students a first hand look at how business operates and the challenges confronting entrepreneurs. He reported that he saw little difficulty in securing 50 percent of the necessary funding for the program from the local business community.

We also know that the University played a key role in establishing the *Graduates in Business Program*. The program was put in place in 1984 but was phased out in 1989. The program made a very modest sum of money available to aspiring entrepreneurs wishing to launch a new business. To be eligible, the applicants had to have a degree or diploma in a study program related to business, have graduated within the last three years, and have some limited working experience in the business he or she sought to establish. The program saw seventeen aspiring entrepreneurs prepare plans to launch a new business. Five actually did so and three of the five are still in business today. The three currently employ some 18-20 people year round and 6-10 on a seasonal basis. The three

now report that they would not be in business today had it not been for the program. UPEI representatives suggest that the program could be re-launched at a maximum cost of $75,000 per year.

We also know that the Veterinary College holds promise for conceiving new economic activities. There are a number of new activities and new products that the college can develop and then "spin them off" to local businesses. This is particularly true for new tests for detecting diseases, new research in aquaculture, and for increasing the value added of existing products. The old thinking still found in the region that the Veterinary College is simply in "the business of fixing cows" is simply not on. The college is staffed with extremely knowledgeable, articulate and ambitious young people wishing to push back the frontiers of knowledge on many fronts. If the emerging economy is to be a knowledge-based economy then there is no better example of this than the Veterinary College. Every effort, however, must be made to harness that knowledge and energy to stimulate new development in Prince Edward Island. By all accounts, the College is now prepared to do a great deal more on this front. It is now firmly established, has hired solid and highly qualified staff, and has been able to secure credibility in the field.

There are still more UPEI-based opportunities for promoting economic development that could be pursued. We know, for example, that the music department has developed a computer-base system to write and publish musical scores. What is important to remember here is that faculty at UPEI may well have the expertise to come up with new knowledge and new products but have no capacity to market such products. This is where local entrepreneurs can come in. They have the entrepreneurial spirit and in many instances the marketing skills to promote new ideas and products. This, however, will not happen automatically. We require a catalyst or someone with the capacity to bridge the two worlds. UPEI also houses the Institute of Island Studies. The Institute has done excellent work with only very modest funding.

We noted earlier that Islanders themselves will have to concentrate much of the energy, skills and creativity to plan and organize new economic activities for Prince Edward Island. Governments may want to turn to Islanders to determine how they see economic development on the Island. They may want to see a number of key questions

answered, including: who do Islanders expect to provide the leadership in economic development? Where will the entrepreneurs come from? What are the present perceptions and future expectations for economic development in Prince Edward Island?

More specifically, governments may want to sponsor a survey to see

- who Islanders consider to be the key actors in promoting economic development programming in Prince Edward Island.
- if there is a negative bias regarding the chances of success in starting a new business in Prince Edward Island. In short, do Islanders consider it more difficult to establish a new business in Prince Edward Island than on the mainland and, if so, why.
- to determine if economic development measures have been successful or have amounted to no real change over the past five years.
- to determine the future expectations for economic development over the next five years.
- to prepare a confidence index for Prince Edward Island. The index should determine whether Islanders are pessimistic, neutral or optimistic about economic development in Prince Edward Island and report on anticipated future residency.
- to identify measures Islanders consider important to promote economic development.

The important point here is that new ways have to be put on place to promote closer cooperation between the private sector, research groups, educational institutions and governments. The arrival of the knowledge-based economy requires it. Both the provincial Industry Department and ACOA are ideally suited to play such a role. They are in constant contact with the local business community. In addition, the staff at both agencies are also able to collaborate with UPEI faculty. Indeed, a good number of them are a product of UPEI.

Though many recognize the importance of establishing strong two way communications between centres of knowledge such as the School of Business and the Veterinary College and the local business community, little will be done unless a mechanism

is put in place to ensure that the collaboration does take place. For this reason, we propose that a Memorandum of Understanding (MOU) be signed between UPEI - with a special focus on its School of Business and the Veterinary College - and both orders of government under a new industrial development subsidiary agreement. The purpose of the MOU would be to launch new activities to promote entrepreneurship and to ensure that economic development flowing from new knowledge and new products are fully captured by the local business community.

Prince Edward Island also has another centre of excellence that is slowly but surely establishing a presence. The Food Technology Centre has an operating budget of $1,000,000 a year, some twenty-five people on its staff and a mandate to provide expertise, and a research and development capacity in the food processing sector. Management now reports that it is ready to build from past successes and to move into new activities.

Management is confident that the centre can have a far-reaching impact on the Island's economy. It points to clear advantages Prince Edward Island holds, notably a climate and soil conducive to agriculture, a major force in the world supply of lobster, and an abundance of sheltered and shallow estuaries to support a growing aquaculture industry. The centre can bring expertise and a strong research and development capacity to a key sector of the Island's economy.

What could the centre do that it is not currently doing? I put this question to the centre's management and to others I consulted. There is a view strongly held by some that what is now required is a stronger "entrepreneurial spirit" on Prince Edward Island and a greater awareness of what the market "out there" wants. The centre has a capacity to "spin off" a number of activities to the private sector. But to do so, outward looking private firms, with an appreciation of research and development, are required. If these are not present, then the Centre will need to create a subsidiary company to develop "commercially viable" new technologies and to market them. The centre's management reports that they are prepared to set up a subsidiary company to spin off new economic activities.

The point was also made that local firms need to become much more sensitive to the requirements of the global market. That is, local processors need to look more and more to new products, new packaging and to understanding better new market

opportunities. As we already noted, the Island's business community is largely based on small business. Typically, they are family-owned concerns, with the owner, more often than not, doubling as production manager, office manager and marketing manager. They do not have easy access to existing trade promotion programs, see little practical merit in subsidized export promotion trips, and often do not appreciate the economic potential of research and development.

It will be important for the provincial Department of Industry and ACOA to promote research and development and market development with small Prince Edward Island firms. However, to ensure that as many opportunities are captured and that the Island is quick off the mark, the Department of Industry and ACOA should encourage the establishment of a new unit to market new technologies.

The Island's private sector consist, of course, of more than aspiring entrepreneurs and we would be far off the mark if we concentrated all our future efforts on assisting would-be entrepreneurs. Even a cursory look at the Island's private sector reveals that we have important firms "from away," local firms that have been in business for some time and new businesses that have witnessed substantial growth over the past ten years or so.

Firms from away include the McCains, the Irvings and Bendix. These are large firms with their own research and development capacity, with a strong marketing capacity and with a well rounded and highly competitive production capacity. Governments can intervene to assist these firms but only up to a point. The firms will seek out whatever assistance is made available but they will invariably chart their own course. Still, it is important for governments to maintain two way communication with these firms if only to share market intelligence. In addition, small firms in Prince Edward Island can learn a great deal about marketing and product development from these large firms. Every effort should be made to encourage formal and informal business networks between large national and multinational firms and local firms.

Local firms that have been in business for some time have a different outlook than large firms from away expanding in Prince Edward Island. The firms are often described as the "ma and pa" operations. That is, they are family firms that typically have

relatively stable markets to which they sell and have been selling for some time the same one or two products.

Local family firms have inherent strengths and weaknesses. For one thing, so long as they prosper in their business, they are here to stay. Their roots are in Prince Edward Island and they will not pick up and leave. They have often been in business for some time and there are an increasing number of second and third generation businesses. They know their business well, have carved out a stable market for their products and are often efficiently run. There are, for example, some highly efficient fish processing firms on the Island, including some second or third generation ones. It is vitally important for these firms to prosper if the Prince Edward Island economy is to become more self-reliant.

Still, some of these businesses have inherent weaknesses. These weaknesses may not knock them out of business, but they will certainly inhibit their growth. The "ma and pa" type businesses will often see the owners performing various functions - office manager, production manager, marketing expert, and director of human resources. Chances are they will excel at one function, but not at all of them. In addition, local family-owned firms are likely to focus on local or established markets. At the risk of making too sweeping a statement, they are comfortable with the status quo preferring to service well their existing clients than launching an ambitious effort to find new ones. This characteristic is found in many local family-run businesses everywhere. It may, however, be particularly true in the case of Prince Edward Island. As one individual we consulted observed: "That nine miles of water separating us from New Brunswick may be more than that in the minds of many Islanders. We tend to view the world mostly from a Prince Edward Island perspective." In short, local well established firms often do not keep up with new developments and new management techniques such as modern approaches to new product development, marketing and human resource development. This is especially true, we are told, in the case of small rural firms. They tend to look inward rather than to new markets and new products. Every effort should be made to encourage small rural firms to look to new markets and new opportunities outside of Prince Edward Island. To do this, governments will have to put in place education-type programs on the global economy and new marketing strengths.

This holds obvious implications for Prince Edward Island. We have noted on numerous occasions in this report that the global economy is imposing a new discipline on all national and regional economies. Nothing is overseas anymore and businesses are aggressively pursuing new markets everywhere. If Prince Edward Island businesses are not pursuing new markets in the global economy, they can be certain that businesses from away will be looking for new markets in Prince Edward Island. That is only part of the story. We also noted earlier that businesses wishing to compete in the world economy need to embrace innovation, new technologies, research and development and ensure that their employees continually update their skills.

It is worth repeating, time and again, that in Prince Edward Island, as elsewhere, future economic growth will be dependent on innovation. If Prince Edward Island is to develop new products and acquire a competitive edge in its natural strengths, it is important to create an environment that will encourage its small business not only to innovate but also to reap the benefits of innovation within the region. It is also worth repeating that Prince Edward Island's business community, composed largely of medium and small businesses, is often in no position to spend on research and development or, for that matter, on new marketing techniques or human resources development. This is where the public sector needs to play a key role.

On some fronts, the Prince Edward Island economy is not much different from some of the other provincial economies or indeed the national economy. The federal Department of Industry, Science and Technology (DIST) recently outlined the necessary building blocks to ensure Canada's economic future. It looked to the global economy and reported that Canada needs to be outward looking and pointed to developing a "well educated, skilled and adoptable" workforce and to strengthening the country's "research, innovation and technological adoption" to ensure future success.

These are also key to Prince Edward Island's economic future. We would certainly encourage DIST to take a stronger interest in the Island's economy than it has in the past and that it brings to bear its own thinking, programs and resources to strengthen the local economy. To be effective, however, the department will have to accept that what

works to promote research and development, innovation, market development and human resources development in one part of the country may not work in Prince Edward Island.

Before we turn to measures to promote marketing, research and development, innovation and human resources development in Prince Edward Island, it is important to speak of one more segment of the Island's private sector. We already wrote about the aspiring entrepreneurs, large national or multinational firms from away and established largely family-owned businesses. The Island also has a growing number of well established first generation entrepreneurs. These businesses are often dynamic and outward looking. An excellent example here is Diagnostic Chemicals. What they may lacked in established markets and well honed production capacity (though this is not the case with Diagnostic Chemicals), they make up in energy and creativity.

Diagnostic Chemicals is now in its third decade of operation. The firm has over the years witnessed strong growth in sales of biochemicals and fine chemicals. It has also been able to secure new markets well beyond Atlantic Canada and Canada itself. It has established a strong reputation in the United States for quality products and keen service to its clients.

There is no need to nudge firms like Diagnostic Chemicals forward to search for new markets or to see the merits of research and development. They are already there and owe their success to aggressive marketing strategies and to leading edge research and development work. These firms are likely to get impatient with the slow and cautious government decision-making process, with government applications and red tape. First generation entrepreneurs, especially those in new fields of economic activities, are by nature quick in sensing an opportunity and pursuing it. Governments can work with such firms but to be more effective in future they will need to change their approach. Newly established and successful businesses will turn to governments for assistance and collaboration on a number of fronts. To meet the challenge, governments will have to react quickly and rely less on formal applications and even "due process" to decide on levels of assistance. In short, to the extent possible, governments should in future look to the track records of entrepreneurs particularly for businesses wishing to compete in the high-tech and knowledge-based markets to determine how they can help.

How then can the Island's private sector be strengthened? We would urge that future efforts be directed at *entrepreneurial development, market development, the transfer and application of new technology, research and development, human resource development* and *prospecting for new investments*. Table 2 provides a breakdown of what is required to strenghten the Island's private sector.

TABLE 2

STRENGTHENING THE PRIVATE SECTOR

1. Aspiring Entrepreneurs:	- Promoting role models to encourage young people to look to establishing their own business as a career option; - Working with the School of Business at UPEI to promote entrepreneurship and to encourage graduates to become entrepreneurs; - A small cash grant; - Minimum of red tape and application forms; - Information on how to start a business, on marketing and on how to operate a business.
2. New Entrepreneurs:	- Tailor a financial assistance package to the firm. New entrepreneurs are likely to have developed a strong capacity in one or two areas (e.g. production) but may well be lacking in others (e.g. marketing and access to capital to expand); - Important to look at these firms from a track record perspective. That is, determine what they are good at and where they are weak; - With a minimum of red tape, assist the firms in areas where they are weak;

TABLE 2 (continued)

	- The current industrial subsidiary agreement has the necessary flexibility to look to new entrepreneurs in terms of defining a special package to assist them.
3. Long-established Prince Edward Island Firms:	- Both ACOA and the provincial Department of Industry need to focus future efforts on these firms. They are, in many ways, the backbone of the Prince Edward Island economy. For one thing, these firms are in Prince Edward Island to stay, provided they can compete. For another, it is often a lot easier to save one existing job than to create a new one;
	- My consultations reveal that, above all, these firms need to update their operations and to modernize their management techniques;
	- We urge both levels of government to prepare an inventory of local manufacturing firms, including food processing firms that have been in business for over thirty years. Interviews - in a pro-active manner - should be held with the owners of these firms to assess *jointly* what may be required in research and development, product design, marketing, human resources development et al. to strengthen the firm's ability to compete in the global economy;
	- It may be necessary to tailor a package to the requirements of the individual firm. In some instances, firms may only need to know where they can access research and development or market intelligence. In other instances, it may be necessary to make arrangements to have marketing or engineering expertise in the form of

TABLE 2 (continued)

	a recent university graduate made available to thefirm for one year through a special cost-shared arrangement. In still other instances, a special multi-facet package may be necessary, involving marketing, some research and development work, and human resources to ensure that the firm will be able to compete.
4. Large Firms From Away:	- These firms do not need to be told to modernize their thinking. They also often have their own in-house capacity to keep abreast of new developments and to be at the leading edge of new thinking in their sectors. They will turn to governments to seek out whatever assistance is made available and there is little need to knock on their doors to encourage this; - Still, both orders of government should be in close contact with these firms to encourage whenever possible both formal and informal business networking with local firms. There is likely much that local firms can learn from large national and multinational firms in marketing, market intelligence and modern management thinking.

Entrepreneurial Development

Much has been written of late about entrepreneurship. In addition, ACOA has in recent years launched numerous activities to promote entrepreneurship in Atlantic Canada. There is no need to go over these initiatives here.

There is little doubt that entrepreneurship must play a key role in Prince Edward Island's future. Capital, technical infrastructure, top flight education and research and development facilities by themselves do not ensure economic development. Development needs entrepreneurs.

There is also little doubt that entrepreneurship is currently playing an important role in the Island's economy. A recent study reports that there are nearly 7,000 businesses with paid employees in Prince Edward Island. Though 90 percent of these firms employ less than 50 people, they have been responsible for over 80 percent of new jobs created during the last ten years. We also know that, as a rule of thumb, development economists consider that 80 percent of new growth in a community comes from the expansion of existing base and only 20 percent from new investment.

The Prince Edward Island government and ACOA recognize the importance of entrepreneurship. ACOA has made entrepreneurship its central theme in its policies and programs. The Prince Edward Island Department of Industry has established a Small Business Development unit and provides a variety of programs and services to aspiring entrepreneurs and small business. The Rural Economic Development Agreement with ACOA also provides programs to promote rural business development, entrepreneurial skills and rural enterprise development.

These measures are important. Still, we argue that more is required. Many of the measures identified elsewhere in this report would strengthen Prince Edward Island's entrepreneurial spirit and the small business community. In addition, we would urge both orders of government to adopt a long-term perspective to promoting entrepreneurship and to turn to other institutions for collaboration. There are several potential forces in Prince Edward Island that have been left largely untapped. Turning to these forces need not be costly.

More specifically, we urge both orders of governments:

- To look to educational institutions, notably UPEI's School of Business, to launch initiatives outlined earlier in this report to strengthen entrepreneurship.
- To identify ways to introduce entrepreneurs to *new* networks to gather information for business planning and marketing, including tapping into data bases and information networks.
- To look to women to promote entrepreneurship. A good number of measures are currently available to promote entrepreneurship in Prince Edward Island, including entrepreneurship among women. Still, we know that, at the national

level, women are now starting businesses at a faster rate than men and that in 1989 they constituted 32 percent of the total self-employed. We also know that other jurisdictions have put in place numerous measures to stimulate entrepreneurship among women. We urge ACOA and the Prince Edward Island government to review what measures apply in other jurisdictions to promote women entrepreneurship to see what could, on the best cost-benefit basis, be introduced to the Island.

Market Development

Given its small local market, Prince Edward Island's producers must export to grow. This has always been true. It is more so today in the global economy. Certainly, the need for intense marketing efforts is increasingly important given the Canada-U.S. Free Trade Agreement, Europe 1992 and developments in eastern Europe. The fast pace of change means that today's products that have secured a particular niche in the marketplace may become redundant almost overnight. New products are continually coming on stream and they are being marketed everywhere.

It is not too much of an exaggeration to suggest that we need a new mindset among the local business community. Local businesses need now to focus on the outside world even more than in the past and constantly think of possible new markets and new products. This will not be easy. Indeed, most businesses, not just those in Prince Edward Island, find it hard to abandon yesterday's perspective, tasks, products and to stop doing what may well have become unproductive. People from whatever profession are quite naturally committed to what they are used to and reluctant to accept new challenges in new markets.

More specifically, what can Prince Edward Island do in market development? I put this question to private sector representatives. They spoke less about trade missions and securing government funds for marketing studies than I had anticipated. Rather, they pointed to the need for market intelligence (e.g. how does one penetrate the New England

or European markets), for information and intelligence on what the competition is doing, on the attitudes of customers, for information on new marketing techniques such as computer selling or telemarketing, for new approaches to packaging and for marketing training. Above all they asked the public sector to be more proactive in assisting them in their marketing efforts - less reliant on sitting back and processing application forms and more on identifying what could be done and how.

In light of the challenge at hand and the observations of private sector representatives in our consultations, we urge both orders of government to outline a market development strategy that would:

- See governments focus on gathering intelligence, in selected sectors, on foreign markets and competition strategies. The objective here is to secure what local private sector representatives label "hard data" about potential foreign markets.
- See governments work hand in hand with the private sector to develop an education program for Prince Edward Island businesses in planning marketing strategies, global marketing and employing new marketing techniques.
- See governments take the lead in promoting new marketing trends and techniques to Prince Edward Island, including telemarketing, computer selling, and promoting the World Information Network for Exports through External Affairs.

New Technologies: Their Development, Transfer and Application

We know that, everywhere, we increasingly measure the competitiveness of regions by the extent industries invest in research and development, on the one hand, and by their ability to bridge research efforts with successful commercial exploitation and to transfer quickly to their operations technologies developed elsewhere, on the other. We will return to research and development shortly.

The application of new technologies enable firms to introduce more efficient production processes, sophisticated design and produce superior quality products. However,

we saw earlier that Prince Edward Island trails badly other provinces in the application of new technologies as measured, for example, by the use of computer. We also know that Atlantic Canada, as a whole, trails the national average in the use of advanced manufacturing technologies in the food, beverage (key sectors for Prince Edward Island), wood, primary and fabricated metal industries.

We urge both orders of government to give priority to technology transfer and, in particular, focus on:

- Equipping small *growth oriented* firms with appropriate technology together with the necessary marketing and management skills.
- Strengthening the application of new technologies to export sensitive firms, notably those in aquaculture, food processing and biotechnologies.

Research and Development

It is hardly possible to overstate the importance of research and development to Prince Edward Island. This is also where Canadians collectively must channel their efforts to compete in the global economy.

We know that some of the most successful federal regional development efforts in the past have been in research and development. Some twenty-five years ago, for example, the Atlantic Development Board provided a $2.4 million grant to establish the New Brunswick Research and Productivity Council (RPC). RPC has grown and today earns over $10 million in sales annually. These sales come, by and large, from research contracts with the province's small business community. Some of the contracts have paved the way for highly successful new products which today are sold on national and international markets.

Given the fiscal situation of both orders of government, it would not likely be possible at this point to establish a Provincial Research Organization for Prince Edward Island. Prince Edward Island is fortunate in that it now is the home to promising research and development centres. UPEI, the Veterinary College, the Food Technology Centre are building up solid reputations. These facilities also relate directly to agriculture, fisheries and value added food processing all of which are key to Prince Edward Island's future. The

Food Technology Centre, given its structure and its interest, could play the lead provincial role in research and development work and in stressing the importance of such work for the private sector.

We must now build on this strength on two fronts: strengthening the Island's research and development capacity and encouraging the commercial application of the work being carried out at these research and development centres.

More specifically, we urge both orders of government to:

- Encourage the establishment of new federal research and development centres on Prince Edward Island. It is important to build on existing strengths and to ensure a critical mass of experts. In research and development, especially, nothing succeeds like success. If experts see exciting developments taking place on Prince Edward Island in research and development, they will want to locate there. There is now a strong nucleus of expertise in food related research activities and governments, notably the federal government, should seek to strengthen this nucleus by locating any new research activities in this area on Prince Edward Island.
- Encourage stronger collaboration between the private sector and research centres and the commercial application of local research and development work. Both orders of government should explore the option of establishing new units or even a new position designed solely to ensure the commercial application of the research and development work and to ensure that small local firms are in close communication with the research development centres and vice versa.

We know that Prince Edward Island has a strong competitive edge in the food industry. It is now vitally important that Prince Edward Island builds on its comparative advantage in agriculture, aquaculture and the fishery. We must now work to add more value to everything we produce by turning fish into frozen dinners, lobster into a high priced meal and so on.

Human Resources Development

Human resources development, education, the upgrading of skills constitute another key ingredient to making Prince Edward Island more self-reliant economically. We know that economic development depends on the rate at which we accumulate human capital. "The knowledge and skills that people accumulate through education, training, and /or experience that enable them to supply valuable productive service to others." The acquisition of marketable human capital is also the surest way of elevating people's earnings above the poverty level. Peter Drucker has observed that the basic factor in economic development is the rate of "brain formation - the rate at which a country produces people with imagination and vision, education, theoretical and analytical skills."

We hasten to add that this is not the first time Islanders or, indeed, Atlantic Canadians have been told that human resources development is a key ingredient in their economic development. It has been a central feature of numerous reports on the Prince Edward Island and Atlantic economies. Yet, one easily senses that we are not moving quickly enough on this front.

We know two things. First, Prince Edward Island has a skilled labour shortage. Second, the majority of small and medium-sized enterprises deal with an undereducated and aging workforce and limited opportunity for formal training in a relatively rural environment. Given these two factors, ACOA and the provincial Department of Industry should promote a new sustained effort in human resources development.

Again, Prince Edward Island is fortunate in that it has solid education facilities in UPEI and Holland College. It is well known, for example, that Holland College has been one of the leaders in the development of competency-based education in North America. In addition, private sector representatives, particularly those from Summerside, applauded the work of Holland College and in particular its ability to work with the private sector. Governments should work with UPEI and Holland College and the private sector to plan a human resources development strategy for the Island. Governments should do this with a sense of urgency. It is envisaged that by the end of the century the single-occupation career will likely be history. The rapid pace of technological advance, with its unpredictable

twists and turns, threatens almost every skill and occupation with obsolescence. The retraining of workers for new employment will assume new importance, and the pace of economic development will depend in large measures on how quickly workforces can be redeployed.

Not everyone will be able to benefit from retraining. Many of those left jobless from the decline of employment in Atlantic Canada may lack the basic skills needed to hold other jobs or to acquire more marketable skills. For these people, remedial education, rather than retraining, may be necessary. The lack of basic education is a major cause of prolonged joblessness and welfare dependency.

It is important to stress that developing the human resource potential of Prince Edward Island requires a different set of policies and programs than what is appropriate for other regions. For one thing, the great majority of Prince Edward Island firms have no human resource development plans and very little training expertise. Small businesses seldom engage in training workers other than on the job training. Thus, a good number of Islanders are not given the opportunity to develop new and modern skills necessary to meet change. Similarly, businesses in Prince Edward Island are rarely able to purchase seats in community colleges or to provide assistance to their employees or to laid-off employees to pursue training, upgrade their skills, or take university courses. This is true even when governments offer to cost-share some of the training costs. It may well be that human resource development in Prince Edward Island should be planned in a cooperative fashion around the individuals, the universities, the community colleges and firms.

We know that CEIC's new policy is to look to the private sector not only to plan human resources requirements, but also to deliver the training. This, no doubt, makes a great deal of sense in large regions and centres. Prince Edward Island, however, has very limited private sector capacity in this area. To be sure, there are a limited number of Prince Edward Island firms that do provide some training, and governments should make full use of them. This, however, will not be enough. Holland College has strong roots in Prince Edward Island and can deliver training and services that the local private sector will never be able to reproduce.

More specifically, we urge ACOA and the provincial Department of Industry to initiate the preparation of a human resources development plan for Prince Edward Island that would identify human resource requirements even down to the firm level and act as catalyst to bring all key participants to assume their role in implementing the plan. The plan should also look at the future role of Holland College in human resources development. Accordingly, the planning should be formulated in close cooperation with the private sector, UPEI, Holland College, labour, CEIC, and the provincial Department of Education.

Prospecting

Prince Edward Island will have to attract outside investments to become more competitive and more self-reliant. To do so, the province will have to sell itself to the world. It will not, however, be able to do so through a diverse collection of slogans, approaches and sudden starts and stops.

This is not to suggest that Prince Edward Island has not been actively pursuing outside investors in recent months. The Aerospace Centre in Summerside is an excellent case in point. The centre represents a $20 million investment in a new aerospace marketing concept - a fly-in, fly-out remanufacturing centre for narrow body and commuter aircraft in North America.

Largely through the efforts of friends of the Island now living in Toronto, the local ACOA office, the provincial department of Industry, local entrepreneurs and the community, two firms have been attracted to the centre. The firms are operating, have already generated more than 100 skilled person-years of employment and have been working closely with local institutions such as Holland College to develop new courses.

The centre holds strong potential for further development. In economic development, one success story often leads to other success stories. In addition, this is a forward looking industry. It is also relatively footloose in that transportation cost is not a critical factor. Indeed, the centre can easily service clients in central Canada and eastern United States. We certainly applaud this development and urge both orders of government to promote it to attract other potential investors to the province.

Still, Prince Edward Island must develop a central promotional theme that sums up why outside investors should invest in Prince Edward Island. More specifically, we urge Prince Edward Island to prepare a promotional campaign that would focus on the types of business that would have every chance of success in Prince Edward Island and on reasons for choosing the Island as a place to invest.

My consultations with a cross-section of Islanders, including individuals who have been working in regional development for some twenty years, suggest that Prince Edward Island should seek to attract outside investors wishing to add value to the Island's natural resources and to invest in the service sector. This is not to suggest that governments should shut the door to local or even outside investors wishing to invest in non-traditional type businesses. We know, for example, that some local investors have been highly successful in such businesses of late. Still, there is a widely held view that the Island should concentrate its promotional efforts on attracting outside investments through which new processing and manufacturing can add to the value of Prince Edward Island's resources. In addition, the limited resources available to support manufacturing should be concentrated on developing new markets and on export-oriented companies and institutions. The thrust in manufacturing development should be toward products and services in which a significant proportion of the market value lies in the particular function, quality and design. Standardized mature commodities should be avoided, except where they are based on particular resources or local advantages which Prince Edward Island might have. Development *priority* should be given to industries where the management, product development, marketing and production functions are located in Prince Edward Island.

Both ACOA and the provincial government should be prepared to be flexible and to tailor special packages to attract the right kind of investor to the Island. The provincial government should, for example, be prepared to design *a* special tax incentive package to attract a new investment.

In addition, both orders of government should be prepared to offer a package that may include assistance that does *not* reduce the capital needed by a private investor but looks to other factors. We now know that cash grants designed to reduce the cost of capital often encourages the establishment of production facilities only and does little to encourage

the indigenous development of corporate management and other key functions, such as product research, design, development and marketing. As technology develops, the production function involves a smaller and smaller portion of the total costs incurred and resources committed over the life of the product. Technology has also created portable production methods, equipment and techniques. Accordingly, the presence of a production facility only in a community can no longer be viewed as providing stable long term employment.

A more productive approach in certain instances would be to concentrate financial aid on "buying down the learning curves." Every product, over its product life, has learning curve costs arising from its development and introduction to the market. These involved incremental research, production, marketing, management, training and education costs. In modern advanced technology, these costs are important and often exceed other capital and operating costs combined. The important point here is that in future it may be more important to provide assistance to some firms to put in place the right marketing, human resources development and research and development plans than to assist in reducing the capital cost of new buildings and equipment.

Governments should assist firms in buying down specific learning curve costs, provided they are incurred in Prince Edward Island. They could do this either through a cash grant or through a special tax incentive negotiated on a case-by-case basis. This would encourage the development of integrated facilities with indigenous management, design, development and marketing functions. These integrated facilities are much less likely to be footloose and they will add to the management and professional skills of the area. In addition, concentrating assistance on learning curve costs discourages over-capitalization (the installation of overly large, costly and unnecessarily complex production equipment). This, in turn, will avoid the ongoing need to subsidize the "core" costs of industries that can barely compete in the marketplace.

Prince Edward Island is also an ideal location for the service sector and for new federal government administrative units. The Island's quality of life, close community spirit, affordable housing, excellent schools, safe streets, easily accessible recreational facilities, a solid university, excellent air service to central Canada, a labour force that is both

loyal and hard working point to Prince Edward Island as an ideal place to locate new service-related economic activities. Yet, all these positive features are not widely known outside of Atlantic Canada - it is one of Prince Edward Island's best kept secret. One individual we consulted suggested that we have not promoted Prince Edward Island well perhaps because we have started to believe central Canada's perception of us, as laid back and willing to let the flow of time direct its economic future.

How then should we promote Prince Edward Island as a place to invest and where? In terms of the how, we need to focus on a few carefully selected themes and to prepare a comprehensive package. It will also be important to involve all key actors in the process. The premier is a highly articulate and forceful speaker with a positive image outside of Atlantic Canada. We should make full use of him. He could, for example, launch the campaign through a speaking engagement at the Empire or Canadian clubs in Toronto. He could point to Prince Edward Island as a place to invest for certain industries and declare that the Island will assist investments in these areas. We should encourage the participation of Islanders, currently living in Toronto, in promoting Prince Edward Island as a place to invest. There are at the moment a number of highly successful Islanders occupying various key positions in large private sector firms or have been successful business proprietors in their own right living in Toronto and no doubt willing to help their home province.

In terms of where Prince Edward Island should be promoted, we should target Ontario, New England and selected non North American countries. We know that Ontario, particularly Toronto, does not hold the same advantages it once did only a few years ago - dramatic urban growth is not without problems and some firms are looking to relocate where it is cheaper to operate and the quality of life is better. In addition, some American firms are locating to Canada as a stepping stone to Europe. Similarly, some European firms are looking to Canada to locate to tap into the United States' market through the United States-Canada Free Trade Agreement.

We also know that things have changed dramatically on the investment front in recent years. The United States used to generate 40 percent of all international investment placed by the thirteen largest OECD countries. Today, that share is shrinking

rapidly and Japan and some European countries have seen their share increase significantly. Indeed, the United States is now absorbing more than half of the direct investment placed by the thirteen largest OECD countries. This suggests two things: we need to pay far more attention to non United States and Canadian investment sources and the competition to attract new investment is now global and intense.

In light of this, we urge both orders of government to support a promotional campaign to attract investments to Prince Edward Island which would be based on the following principles:

- focus on a few selected themes and industries (i.e. value added manufacturing and processing of the Island's natural resources and the service sector).
- be comprehensive and sustained over a set period of time.
- provide for maximum flexibility to attract selected investments. This flexibility should provide for tax incentives (i.e. on a project basis only) and for "buying down the learning curves" from the costs for development of new products and their introduction to the market. Buying down the learning curve here means assistance to develop, produce and market new products.
- both orders of government should provide adequate resources to launch a comprehensive and sustained prospecting campaign.
- in planning the prospecting strategy, the governments should research carefully their target so that officials implementing the strategy do not dart off in all directions.
- one such target should be the public sector, specifically the federal government. Governments do create jobs - one excellent example is the GST centre in Summerside. A prospecting strategy for Prince Edward Island should look to new government units being established and develop a campaign to secure such units for Prince Edward Island.
- a prospecting strategy for Prince Edward Island should make full use of the Island's strengths. One such strength is Premier Ghiz who is highly articulated and who has strong credibility in other regions of the country. Premier Ghiz

could, for example, launch the new strategy through a speaking engagement before the Empire Club in Toronto.

Other Issues

There are a number of other issues that are key to a successful industrial development strategy. One is the necessary infrastructure to support industrial development activities.

Prince Edward Island has high quality industrial parks. Many would insist that there is no shortage of serviced industrial land on the Island. They are only partly correct. The West Royalty Industrial Park in Charlottetown is nearing full capacity. I raise this issue to alert governments to monitor - no doubt they are already doing so - developments on this front and initiate as soon as possible preliminary planning on what is the next step for serviced industrial land in the Charlottetown area.

There are three other issues that need to be highlighted here even though they have been fully debated in Prince Edward Island over the past several years. We know that the cost of energy and transportation is high and inhibiting many Prince Edward Island manufacturers and processors in competing head to head with mainland competitors. We raise the issues here not because we are proposing solutions. Several possible solutions have already been brought forward and we know that both levels of government have and are continuing to look at them.

The environment and economic development in Prince Edward Island go hand in hand. Economic development is really not possible over a longer term basis without proper and careful attention to the environment. A good part of Prince Edward Island's economy and its future rely on the food industry, on productive agricultural land, on the fishery and tourism. If the current crisis in the fishery has taught us anything, it is that we can no longer take our environment and our natural resources for granted.

This concern is, of course, not new to many Islanders and to their government. There are now strict guidelines and environment assessment reviews that oversee the approval and implementation of new economic activities. We highlight the environment here because of its importance to the Island's economy. It is worth repeating what the

recent Royal Commission on Land Use had to say on the subject. "For years, we have been dipping into our capital in most areas relating to our "land." We are not at the point of bankruptcy, but such an end is not that far off. It becomes, then, a *matter of will* for Islanders and their Government. The time has come to cease the talk and to tend the garden." We applaud the work done under the existing industrial subsidiary agreement to encourage the establishment of the necessary infrastructure such as waste treatment plants in industrial facilities. We urge both orders of government to continue such efforts in a new subsidiary agreement.

We have reported time and again in this report that the private sector in Prince Edward Island, notably long-established local firms, need to be informed on a timely basis about new developments in the global economy, about developments in management techniques including marketing, human resources development and new technologies and about new markets. In addition, we know that it is vitally important to promote entrepreneurs as role models.

How can this be achieved? We suggest the establishment of a Prince Edward Island Economic Council to act as a mechanism to accomplish the above. We recognize that many Islanders will intuitively think that we currently have enough agencies and that we do not need another one. The Prince Edward Island Economic Council would be very different from existing agencies; failing that it will certainly not succeed. For one thing, it would be put together, directed and managed completely by the private sector. We would only recommend a modest one-time grant under a new industrial subsidiary agreement - $50,000 to launch the council. The council would then become self-financing or it would die.

The mandate of the council should be clear. The council should not be a think tank, should not sponsor economic studies, and would not be directly involved with any government program. The purpose of the council should be twofold: first, it should act as a catalyst in promoting "networking" among the Island's private sector, in particular, in promoting dialogue between large multinational or national firms and local businesses; second, it should promote entrepreneurs as role models.

We know that economic councils established elsewhere (e.g. New Brunswick) with a similar mandate have been remarkedly successful. The New Brunswick Economic

Council, for example, names an entrepreneur of the year which has become a much coveted honour, organizes monthly breakfast meetings to discuss a variety of business issues and often plans seminars and conferences on key topics such as marketing and economic opportunities flowing out of the Free Trade Agreement. The council was established in the early 1980s by a few entrepreneurs. It now has about 2,000 paid up members.

In short, a Prince Edward Island Economic Council would have a clear private sector orientation, would avoid academic-type studies and would be action-oriented. It would bring together - rather than duplicate the efforts of existing bodies in Prince Edward Island such as CMA and Chambers of Commerce. It would provide an Island-wide perspective and would be of interest to *all* sectors and *all* businesses in Prince Edward Island.

Success in building up organizations such as an economic council of the kind discussed above often hinges on the quality of the individuals coming together to ensure a proper launch. The founder must be highly respected in this business community, have a deep commitment to the local economy and have strong organizational skills. We are convinced that there are a number of senior business executives in Prince Edward Island who have the credibility and the necessary skills to establish an economic council for Prince Edward Island and we urge both orders of government to approach one such person to see if he or she would be prepared to commit some time to such an endeavour.

The Public Sector

To ensure that Prince Edward Island becomes increasingly self-reliant economically, governments will have to do their part. We have highlighted a number of possible measures that both ACOA and the provinces could launch to promote economic development with the private sector and others. This is vitally important. But both orders of government will also have to look to their own policies and activities to promote development on Prince Edward Island.

The Federal Government

Many observers have made the point time and again that national policies and programs are not "sensitive" to the economic circumstances of the regions. I was told of numerous cases where national policies and programs do not apply well or even not at all to the Prince Edward Island economy. The fact that many national policies do not apply to the Island gives rise to inappropriate, costly and at times counter productive programs.

I was told, for example, that CEIC programs are better suited to central Canada than Prince Edward Island, that DIST is hardly present on the Island and that Environment Canada and its Green Plan has hardly looked to the Island.

We are also detecting a view among many federal departments that they need not pay too much attention to this region arguing that ACOA will take care of it. This obviously goes against the very purpose for which ACOA was established. ACOA simply does not have the resources, both financial and human, to do its own job as well as those of other federal departments.

If Prince Edward Island is to become increasingly self-reliant, then other federal departments must play a key role. They have to look to their own policies and programs to see how they can be adjusted - often at very little cost - to stimulate economic development in Prince Edward Island.

More specifically, we urge

- the federal government to review the policies and programs of their departments to ensure that, to the extent possible, they square with the Prince Edward Island's economic circumstances. This could be done one department at a time rather than go off in all different directions at once. This initiative should be part of the federal government's newly established prosperity and competitiveness exercise.

In looking at national policies and programs, the federal government should also consider the contribution to regional development that could be made by the decentralization of some federal units and offices. It is well known, for example, that, comparatively speaking, the federal public service is highly concentrated, with about 30

percent of its employees located in the National Capital Commission; in the United States, by contrast, only about 12 percent of federal government employees work in the Washington D.C. area.

The federal government launched a decentralization program in the mid 1970s. The program was effectively terminated in the early 1980s, with the federal government suggesting that it was too costly. However, we now know that most of the units which were decentralized are operating more efficiently in their new locations than they did out of Ottawa. The most important factor is the dramatic drop in staff turnover which is now, on average, well below 10 percent a year. When these units were operating in Ottawa, turnover was well above this level and, on occasion, went as high as 40 percent a year. This has had obvious implications for the operation of the units both in terms of training cost and productivity. In some instances, the increase in productivity, following decentralization, has been such that it has been possible to reduce the unit's person year complement and still process more work.

More specifically, we recommend that the federal government

- review *all* proposals involving new organizations to see if any could be located in Prince Edward Island.

The federal government is increasingly becoming an important player in the research and development field not just in providing funding for research, but also in setting up new research facilities. We understand, for example, that the Green Plan will spawn new research facilities. Prince Edward Island, for reasons already presented, is an excellent location for new research and development work. In addition, the Island itself offers ideal research opportunities to study environment issues notably on the supply of ground water. We also know that the Island economy is rooted in activities which are land and water dependent - agriculture, the fishery, aquaculture and tourism.

More specifically, we urge

- the Prince Edward Island government and ACOA to explore jointly with Environment Canada the possibility of establishing new research activities on the environment in Prince Edward Island.

The Provincial Government

The Prince Edward Island government has unveiled an ambitious program to restructure its public service. We applaud this initiative. We now know that in introducing ambitious new measures to promote economic development, governments have largely ignored how such measures should be implemented. The result is that, by and large, regular line government departments have been called upon to deliver the measures. They have not always performed well.

My consultations with private sector representatives and a good number of government officials in Prince Edward Island confirm what I have heard in other jurisdictions. That is, we need to rethink not so much what we do in promoting economic development, but how we do it. Private sector representatives report that, typically, government departments are slow, cautious and cumbersome. This may not be true in all instances. Indeed, I doubt if it is true at all with regard to the Prince Edward Island Department of Industry and the local ACOA office. Still, reality is one thing and perception is often another. In the economic development field it is frequently as important to deal with perception as it is to deal with reality. In addition, it should not come as a surprise to anyone that government departments are structured to be slow and cautious and public servants will be the first to admit this.

We know that by definition regional development measures need to be creative, highly flexible and risk taking. The solution then is to structure government agencies to be risk taking and creative. Many governments are beginning to recognize this. The Prince Edward Island government, however, is one of the first to attempt to do something about it. Its government reform measures hold promise and they constitute some leading edge work. Indeed, we envisage that if things go according to plan, other governments will be knocking on the Prince Edward Island door in a few years to see how it is done.

Still, introducing sweeping government reform measures is not easy. It requires above all strong political will and determination on the part of the officials implementing them. History has told us, time and again, that the forces in government

favouring the status quo are extremely powerful. We can only here strongly encourage what the Prince Edward Island government is attempting and report that the reform measures are *key* to making the transition to a more self-reliant economy.

More specifically, we urge the Prince Edward Island government

- to press ahead with its reform package and point out that it will constitute a *key* factor in the success of future economic development initiatives in Prince Edward Island.

CHAPTER 5
RECOMMENDATIONS

We have looked at past and present economic development efforts and we have come up with a set of new prescriptions. Is it going to make a difference? We ask this question not because we are skeptical but because we are realists. We know how difficult it has been in the past to promote economic development in Prince Edward Island.

We are hopeful, however, that solid economic development can take place in Prince Edward Island. We have learned some lessons from the past, the most important being that development in Prince Edward Island depends a great deal more on the beliefs, values, attitudes and skills of Islanders themselves than on anything else. We would like to remind readers of E.F. Schumacher's words: "Development does not start with goods; it starts with people and their education, organization, and discipline." We have also learned that we must be much more selective in seeking to attract outside investors and that the efforts must be more coherent and sustained.

Schumacher's views sum up well the underlying theme of this report. In it, we urge governments to focus a major part of their efforts and attention on Islanders. We are convinced that public funds invested in strengthening the skills and attitudes of Islanders themselves, as well as their institutions, will enable them to compete more aggressively in regional, national and international markets. Some constraints to development in Prince Edward Island may well be more a matter of perception than real forces or actual fact. A case in point is the attitude found among some Islanders that "we have tried everything imaginable in the past and nothing much seems to work." Perception, nevertheless, colours the attitudes of Islanders and the issue needs to be addressed.

Economic growth in Prince Edward Island depends upon having businesses that are willing to take risks, develop new products, utilize new technologies, and penetrate new markets. At least four out of five new jobs in Prince Edward Island will likely be created by indigenous companies - those already here or those that will be created by Islanders. Entrepreneurship can flourish in newly established and in existing businesses

willing to adapt to a changing economy. We have seen that Prince Edward Island faces special, perhaps unique, challenges in promoting entrepreneurship. Governments cannot create entrepreneurs, but they can help create a climate in which innovation thrives.

Entrepreneurship by itself cannot represent the complete solution for Prince Edward Island. We will need outside investors and governments will have to look to their own activities if Prince Edward Island is to become more self reliant.

The goal underpinning Prince Edward Island's industrial development efforts should be to develop a more self-reliant economy. By self reliance, we do not mean for Islanders to close ranks and simply look inward. We mean self-reliant and not self-sufficient. Prince Edward Island has, over the past number of years, built up an impressive socio-economic infrastructure and a life style that is the envy of many - or should be - around the globe. However, as chapter 2 of this study makes clear, too much of the Island's infrastructure and life style is dependent on federal transfer payments. We have also seen in this study that the forces at play suggest that the federal government may not be able to sustain transfer payments at their current levels. Indeed, the federal government has already begun to reduce transfer payments.

Prince Edward Island must respond to this challenge with a sense of urgency. It needs to make the transition to a more self-reliant economy, an economy that can assume a greater part of the responsibility in sustaining the province's socio-economic infrastructure.

We have no doubt that the transition is possible, though no one should assume for a moment that it will be easy or painless. How can Prince Edward Island begin to make the transition? For one thing, the province should recognize that it will not happen overnight and that it will require an all-out effort on the part of all sectors.

More specifically, we argue that promoting entrepreneurship - the latest fad in regional development thinking - is important for Prince Edward Island, but that it will not be enough. We recommend that decision makers break down the Island's private sector into four distinct components and that they put together a different approach for each component (see pages 49-52 for a discussion on the different private sector components in Prince Edward Island and what they require to grow). An important challenge here is to encourage long-established local firms to modernize their management and marketing

thinking. We recommend that Prince Edward Island launch a new, sustained, coherent and targetted effort to attract outside investors to Prince Edward Island (see pages 61-64).

We urge both orders of government in their efforts to strengthen the Island's private sector to look to research and development, marketing, human resources development and promoting the application of new technologies to local businesses. A comparative study of the ten provinces reveals that Prince Edward Island trails most of the other provinces on the application of new technologies.

We also firmly believe that research and development centres, like the Atlantic Veterinary College, and the Food Technology Centre and educational institutions, like UPEI and Holland College, can play a more important role in the economic life of Prince Edward Island. We suggest ways for accomplishing this (see pages 45-48).

We also argue that both levels of government should look to their own policies and activities to promote a more self-reliant Prince Edward Island economy. The provincial government has launched ambitious measures to reform its public service. We applaud these measures and urge the provincial government to push ahead with them. We say this because there is growing evidence that where we may have failed in regional development programming over the past twenty-five years or so, is not so much on the policy and program fronts, but in how these were delivered.

We also urge the federal government to look to its own policies and programs to see how these fit with local economic circumstances. Many of the people we consulted argue that a number of federal policies and programs are largely designed for large urban centres and the economic circumstances of central Canada. They often do not correspond with the economic requirements of Prince Edward Island. We also heard that these policies could be revised to apply more adequately to Prince Edward Island at a minimum cost to taxpayers. We recommend that the federal government review its policies and their applications to Prince Edward Island as part of its new "prosperity and competitiveness" exercise. We also recommend that the federal government should look to Prince Edward Island when locating new administrative units. This, we argue, makes sense not just from a regional development point of view, but also from an economic efficiency perspective.

We have developed the following specific recommendations. We caution the reader, however, that he or she will not be able to get a full appreciation of what we are proposing by reading only the recommendations. Indeed, it is hardly possible to understand fully the recommendations without first reading the study, in particular, chapter 4. In many instances, the specific actions that are required are found in chapter 4.

A New Industrial Subsidiary Agreement for Prince Edward Island

Recommendation 1:

- We recommend that ACOA and the Prince Edward Island government sign a new five-year industrial subsidiary agreement. It is clear that the current agreement has been successful. Accordingly, the new agreement should - albeit with some modifications - be patterned alone the lines of the existing agreement. It should incorporate whenever possible the recommendations that follow. It is important to stress that many of these recommendations *can be* incorporated under the present program structure. Other recommendations would require new subsidiary agreements. We urge both orders of government to press ahead with new agreements for these areas.

Entrepreneurship

Recommendation 2:

- The provincial Department of Industry and ACOA have put together an excellent program mix to promote entrepreneurship. We recommend that they pursue current programs. More, however, is needed. We urge both levels of government to encourage a longer term perspective in promoting entrepreneurship. Schools should be

encouraged to include entrepreneurship in their extra curriculum activities, including orientation weeks.

Recommendation 3:

- We also urge governments to explore the possibility of signing a Memorandum of Understanding (MOU) with the University of Prince Edward Island. The MOU should concentrate on entrepreneurship through the University's School of Business but should also look to other groups at the University.

The MOU with University of Prince Edward Island should

- Establish a co-op student program with the local business community.
- Re-launch the Graduates in Business Program.
- In consultation with the Veterinary College, identify ways to ensure a greater "commercialization" of the research activities of the College.
- Provide a research grant to assist UPEI to launch a project that would compare economic development of small island economies.
- Provide a research grant to UPEI to launch a study on the attitudes of Islanders towards economic development. An important theme of this report is that Islanders themselves will have to provide much of the energy, skills and creativity to plan and organize new economic activities for Prince Edward Island. Governments will need to have a deeper understanding of how Islanders themselves see the future, the opportunities and constraints to economic development so that new measures can be better planned.
- Provide a mechanism for two-way communications between local firms and the research and development community. We were told time and again in the consultations that local firms are too insular, too inward looking and too wedded to past practices. It is vitally important, if they

are to compete successfully, that they "modernize" their own management thinking and in particular that they look to new technologies and appreciate the merits of research and development work. We were also told that the academic and research and development communities are also often inward looking, that they tend to concentrate on pushing back the frontiers of knowledge without looking at how new developments could be made commercially viable. The solution is to have someone with the necessary background to have a foot in both camps, someone that can relate to the local business community and that can talk to researchers. We recommend that governments create a new position under the industrial subsidiary agreement for the sole purpose of ensuring that local firms are linked up to the research and development communities.

Recommendation 4:

- ACOA and the Department of Industry should put in place measures to introduce entrepreneurs to new computer networks to gather information to promote marketing, including tapping into existing data bases and information networks (see discussion in chapter 4).

Recommendation 5:

- The Department of Industry should explore, through a new subsidiary agreement on industrial development, ways to promote entrepreneurship among women. This is not to suggest that ACOA or the Prince Edward Island government have stood idle on this front. Still, other jurisdictions have put in place a variety of measures and have witnessed strong growth in new businesses launched by women. It is important that Prince Edward Island exploits fully its

entrepreneurial talent, in particular entrepreneurship among women, which in a number of other jurisdictions is proving to be particularly dynamic. The first step in planning the measures should be a review of what is being done elsewhere.

Strengthening the Island's Private Sector

In chapter 4, we broke down the Island's private sector into four components. We argue that it makes little sense to view firms, such as the McCains, in the same way we view an aspiring entrepreneur. We were also told, time and again during our consultations, that long-established local firms are not growing as much as they should and that they were not "modernizing" their thinking about management practices, marketing, human resources development and research and development. It is important to stress that we were told this by representatives of the local business community.

Recommendation 6:

- We urge both orders of government to work closely with the private sector in terms of aspiring entrepreneurs, new entrepreneurs, long-established Prince Edward Island firms and firms from off the Island.

Recommendation 7:

- We urge both orders of government to recognize that what one component of the Island's business community requires can be vastly different than what another one requires. A description of the four components and what may be required is found on pages 51-53. Suffice to note here that:

Aspiring Entrepreneurs often require:

- A small cash grant to get started
- A minimum of red tape in dealing with governments
- Information on how to start a business, on marketing and on operating a business.

New Entrepreneurs often require:

- An assistance package tailored to the specific needs of the firm. The successful entrepreneur is no doubt highly successful as certain things - for example, marketing, but is likely to ignore things that he or she may not be good at - say, developing new products.
- Whenever possible, governments should look to the track records of the firms in tailoring a special package to assist its growth. Successful first generation entrepreneurs in particular adhor red tape, government forms and a slow decision-making process.

Long-Established Prince Edward Island firms often require:

- Encouragement to update their management thinking and their operations. They, perhaps more than any of the other components, need to appreciate more the merits of new technologies and research and development work. Many of the private sector representatives we met pointed to this component as the backbone of the Prince Edward Island economy, but also reported that it is the most insular and inward looking.
- We urge both levels of government to prepare an inventory of such firms in Prince Edward Island. Interviews should then be held with the proprietors - in a pro-active manner - to assess jointly what may be required in research and development, product design, marketing, human resources development to strengthen the firm's ability to compete in the global economy.

- It may be necessary to tailor a package to the requirements of the individual firm. What may be required could range from information on a new market to having - on a cost-shared basis - an engineering or marketing person (perhaps a recent local university graduate) spend one year with the firm.

Off Island firms require:

- Little other than what they have or what they have already secured from governements. They are in Prince Edward Island because of a specific resource and they (i.e. McCains, Irvings, Bendix et al.) likely know all they need to know about marketing, research and development and modern management practices.
- It is important, however, for both orders of government to encourage formal and informal business contacts and networking between these large firms and the local business community.

Market Development*

Recommendation 8:

- Both orders of government should collaborate to launch new efforts in market development. Specifically, they should focus on gathering "hard

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* We know that ACOA and the provincial government have been planning new subsidiary agreements in the areas of strategic technology development, and market development. There is no need to go over the measures being planned here, they are well known to government officials. It is important to stress, however, that if the measures identified are not being looked after under the proposed subsidiary agreements then they should be incorporated in a new five-year industrial development subsidiary agreement.

data" on foreign markets and competition strategies which should then be disseminated to businesses throughout Prince Edward Island on a timely basis. Governments should also take the lead in promoting new marketing trends and techniques to Prince Edward Island (see chapter 4 for specific actions that could be launched).

Recommendation 9:

- Both orders of government should, in close consultation with the business community, develop an education program for Prince Edward Island businesses on planning marketing strategies, global marketing and employing new marketing techniques. The program should focus on the global economy and its impact on the local business community.

New Technologies: Their Development, Transfer and Application

Recommendation 10:

- Both orders of government should launch new efforts to encourage small growth-oriented firms to acquire appropriate technology together with the necessary marketing and management skills. New efforts should also be put in place to see export sensitive firms, notably those in aquaculture, food processing and biotechnologies apply new technologies to their operations. The first step is to prepare an inventory of such firms in Prince Edward Island. The second step is to establish a mechanism to ensure that local firms are kept current of new technologies being applied in their sectors. Such a mechanism could be developed through the Food Technology Centre or by appointing someone in the Department of Industry responsible for the task under a new Industrial Subsidiary Agreement.

Recommendation 11:

- Given the fiscal situation of both orders of government, it is likely not possible to establish, at least in the short term, a Provincial Research Council of the kind that already exists in New Brunswick and Nova Scotia. We recommend that the Food Technology Centre play this role. To do so, the centre should strengthen considerably its capacity to work with the local private sector by establishing a unit - initially sponsored by a new Industrial Development Agreement - to perform strictly a liaison function between the research and development community on the Island and the private sector. We also recommend that the centre - again to be initially sponsored by a new Industrial Development Agreement - establish a new unit strictly to promote the commercial application of new developments and new products.

Research and Development

Recommendation 12:

- Both orders of government should take steps to encourage the establishment of new federally-funded research and development centres on Prince Edward Island. It is crucial that the Island build on its existing strengths and ensure the existence of a critical mass of expertise in the research and development field.

Human Resources Development

Recommendation 13:

- Both orders of government should initiate the preparation of a human resources development strategy for Prince Edward Island down to the firm level. This could be accomplished by contacting all firms with, for example, fifty or more employees to identify what new skills are required and then to develop jointly a plan to upgrade the skills of employees.

  The strategy should clearly be geared to the requirements of the private sector. It should, however, be developed in close consultation with existing educational institutions, notably Holland College, and be delivered by Prince Edward Island institutions.

Recommendation 14:

- We are well aware of the new CEIC policy being introduced on human resources development. We urge the provincial Department of Industry and ACOA to work with CEIC to ensure that the policy is adjusted to correspond with Prince Edward Island's economic circumstances. In particular, we urge governments to work closely with Holland College to develop a human resources plan for Prince Edward Island.

Prospecting

Recommendation 15:

- Prince Edward Island should, under a new subsidiary agreement, prepare a Comprehensive Plan to attract outside investors and investments to the Island. The strategy should focus on a *few* selected themes and industries, notably the service sector and value added manufacturing and processing of the Island's natural resources (please refer to chapter 4 for more details on developing a prospecting strategy for Prince Edward Island).

Recommendation 16:

- We urge the provincial government to include tax incentives - on a case-by-case basis - as part of a package to attract new investments to Prince Edward Island.

Recommendation 17:

- We urge both orders of government to be flexible and tailor special packages to attract the right kind of investor to the Island. This flexibility should include the capacity to buy down the learning curve costs arising from the development and marketing of new products, provided these costs are incurred in Prince Edward Island (please refer to chapter 4 for more details on what should be done on this front).

The Environment

Recommendation 18:

- New industrial development efforts should *at all times* have environment concerns front and centre. This is necessary not just from an environment perspective but also for the long term economic health of Prince Edward Island. A new industrial development agreement should continue to provide assistance for the installation of waste treatment plants.

The Public Sector

Recommendation 19:

- We urge that the federal government launch a review of the application of national policies and programs as part of its new "prosperity and competitiveness" exercise to ensure that to the extent possible they square with the Island's economic circumstances.

Recommendation 20:

- We urge the Prince Edward Island government and ACOA to explore jointly with Environment Canada the possibility of establishing new research activities on the environment in Prince Edward Island.

Recommendation 21:

- We urge the Prince Edward Island government to press ahead with its public service reform measures. We noted on several occasions in this

report that the challenge ahead in regional development is not so much what we do - we now have the right program mix - but how we do it. The proposed government reforms hold considerably merit on this front.

Recommendation 22:

- The great majority of private sector representatives we met applauded the way ACOA and the provincial government were able to cooperate and work together. Indeed, one firm reported that the close working relationship established between both orders of government was one of the key reasons it decided to locate in Prince Edward Island. In addition, federal and provincial government officials (including provincial ministers) commented on the excellent working relationship that has been struck under the industrial development agreement. As we report in chapter 3, such a close working relationship has not always been apparent even in Prince Edward Island. We, therefore, strongly urge both orders of government to continue their close working relationship, to leave well enough alone and to continue with the current division of responsibility found under the existing industrial subsidiary agreement.

Recommendation 23:

- Though it is beyond the scope of this report to address the problem of what has been described in our consultation as "too many government programs chasing too few businesses," we want to highlight it. We do so for two reasons. First, to reiterate the importance of recommendation 22. Changing roles and responsibilities under a new industrial subsidiary agreement would complicate still further what

many in the private sector consider to be a constantly changing and always complex series of questions about who is doing what and what is available to businesses. Second, in the interest of simplicity, efficiency and establishing effective working relationships with the business community, we urge the establishment of a joint federal/provincial task force or review panel to streamline existing government programs to the private sector. The task force or review panel should bring together representatives of all government departments and agencies having assistance-type programs available to the private sector, should have a mandate to simplify and streamline such programs and should be asked to table its recommendations within one year after it has been established. We recommend that the vice-president of ACOA (Prince Edward Island) and the deputy minister of Industry meet as soon as possible to plan such an exercise.

Recommendation 24:

- We urge both orders of government to provide a one-time grant to the private sector to establish a Prince Edward Island Economic Council (see chapter 4 for a discussion on the mandate of the proposed council). The council would not be a think tank or sponsor studies. It would be designed solely to promote "networking" among private sector firms. In particular, it should promote "networking" or contracts between small local firms and larger regional, national and international firms. It should promote discussions on the implications of the global economy and on new management techniques. The council should also promote entrepreneurs as role models.

We believe that if this report serves as a guide to future economic development efforts in Prince Edward Island then progress towards a more self-reliant economy can be realized. The challenge will not be met overnight. It will take time.

Will we be able to know if a new approach to development can make a difference? Yes. We have identified a set of indicators that should measure the medium and long term performance of the strategy:

- increase in the rate of new business formation;
- number of new full-time jobs, including part-time equivalents;
- pattern of population migration;
- growth in export sales.

APPENDIX A

PUBLIC SECTOR

Consultations with many officials of the Government of Prince Edward Island representing the:

- Department of Industry
- Department of Community and Cultural Affairs
- Business Development Agency
- Prince Edward Island Development Agency
- Department of Fisheries
- Premier's Office
- Executive Council
- Marketing Agency
- Food Technology Centre
- Department of Finance
- Department of the Environment

Consultations with many officials of the Government of Canada:

- Atlantic Canada Opportunities Agency
- Department of Agriculture
- Employment and Immigration Commission
- Fisheries and Oceans

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